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**Corporate Social Responsibility in Saudi Arabia:
Perception, Disclosure and Impact on Firm Performance**

by

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Dedication

I dedicate to this work to my father Hamed Alofi & my Mother.

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The biggest and most important expression of gratitude goes to Dr. Frank Kwabi without whose support and encouragement, this project would not have been possible; my eternal gratitude to him as my supervisor. A big thanks also goes to my second supervisor Dr Bola Babajide.

To my mum and dad who taught me that I can define my destiny no matter what anyone else says. To Hamid and Yahya for their support and understanding

Abstract

The study aims to explore the perceptions of Corporate Social Responsibility (CSR) practices by managers in Saudi Arabia, examine the extent to which Saudi companies disclose their CSR activities and assess the relationship between Corporate Social Responsibility Disclosure (CSRSD) and financial performance in Saudi-listed businesses. To overcome potential bias, both primary and secondary data collection processes were used to provide a rounded view of the topic from multiple viewpoints. The development of the Corporate Social Responsibility Index (CSRDI) has been central to understanding current CSR within Saudi businesses. Using a sample of 108 businesses listed on the Tadawul Exchange in Saudi Arabia, questionnaire results showed a poor performance within Saudi businesses regarding CSRSD. Saudi businesses themselves viewed CSRSD as a ‘thankless task’ given the inability to monetarize CSRSD to improve financial performance and returns within the business. However, regression analysis contradicts this assumption made by business managers, suggesting that financial performance (using Return on Asset (ROA), Return on Equity (ROE) Earning Per Share (EPS) and Tobin-Q as proxies) is positively related to the CSRSD Index. This relationship needs to be communicated with businesses in Saudi Arabia to re-educate management that contrary to their beliefs, CSRSD can be monetarized to achieve a greater financial return, benefitting the business as well as key managers such as the government and shareholders. Results also indicate that greater education in CSR in general is needed within the wider Saudi Arabian community to increase pressure on businesses to change in line with international peers. However, weaknesses in the managers' environment, and their desire to themselves pay for more CSR being undertaken and disclosed within businesses limit the potential to broaden the CSR agenda within Saudi Arabia. The desire of Saudi consumers to change business practices in a way similar to the consumer activism seen in the USA or Europe for instance is an area which requires further academic attention and study.

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Chapter 1 Introduction

1.1 RESEARCH INTRODUCTION

There are various definitions of corporate social responsibility (CSR) arising from different perspectives, but the definitions share several common themes (Carroll, 1979; Dahlsrud, 2008). Wood (1991) argues that CSR comprises activities undertaken by the company to improve its surrounding environment and the environment in which its customers reside, because the latter expect something more from the firm than the goods and services it offers commercially. Freeman (1983) gives a similar interpretation of this concept.

CSR Disclosure (CSRSD) is defined as “the information that a company discloses about its environmental impact and its relationship with its stakeholders by means of relevant communication channels” (Gamerschlag, 2011, p.234). CSRSD is gradually gaining importance in the business sector following several incidents concerning big corporate names and their adverse impact on the environment, the community, and the company itself (Gamerschlag, 2011). Furthermore, public entities and firms are under increasing pressure to declare their CSR policies and initiatives on a yearly basis in their annual reports. This declaration is commonly referred to as CSRSD.

From the late 1980s onwards, the CSR concept caught on the commercial world, and many researchers have concluded that companies that have clear CSR policies are better off in terms of long-term profitability in comparison to those with no CSR policies (Porter and Kramer, 2002; Mulyadi and Anwar, 2012). Moreover, companies with CSR policies project a favourable public image (Tilakasiri et al., 2011).

Developed economies deal with CSRD in a variety of ways (Friedman, 1984; Carroll 1991; Freeman, 1984). In the theoretical literature, competing theories explaining business behaviour have emerged such as Stakeholder Theory (Freeman, 1984) and Profit Maximization Theory (Friedman, 1984). The latter argues that the sole purpose of a corporation should be to maximise wealth of shareholders and net profits of the business. However, Freeman (1984) claims that a firm's responsibility is not limited to generating profits for shareholders and maximising their wealth, but also entails addressing satisfaction of needs of all its stakeholders including customers, local communities, regulators, employees, and managers.

Developed economies take a particular interest in examining CSR concepts (Dober and Halme, 2009). The Western concepts of CSR can be replicated in developing economies to generate positive economic benefits (Jamali, 2007; Dutta and Durgamohan, 2008). However, developing economies seem to require more information on CSR concepts before they can truly reap the benefits associated with them (Fernando, 2007).

Modern-day CSR theories and concepts have been primarily borne of studies and efforts made in Western nations such as the UK and USA (Chambers et al., 2003). This, in turn, calls for clarification on whether the principles are equally valid and applicable in the developing world. This aspect has been looked into by a number of researchers (Chambers et al., 2003; Chapple and Moon, 2005; Visser, 2006; Matten and Moon, 2007). Various authors including Burton et al. (2000) and Khan et al. (2013) are of the opinion that cultural variations and traditions in different countries would be reflected in different CSR practices. The context of this study is Saudi Arabia, a developing country with an emerging economy which is also the largest oil supplier in the world (Fawthrop, 2020). The Saudi government

is encouraging investments in various sectors of its economy and has drawn up multiple strategies to attract investors (Ghabayen, 2012). Moreover, it is a particularly interesting country, as socialist and Islamic factors have impacted the nature of CSRD. The level of social disclosure has increased in Saudi Arabia since the issuing of the Corporate Governance Code in 2006. As a result, most companies listed in the Saudi stock exchange, known as Tadawul, started to disclose their CSR activities in their annual reports and on official websites (Tadawul, 2014).

Saudi Arabian firms maintain elaborate networks, and most companies have been traditionally compliant with CSR guidelines, while maintaining their policies in alignment to Islamic principles and procedures (Khan et al., 2013). It is commonly observed that CSR initiatives in Middle Eastern and the Gulf Cooperation Council (GCC) countries are basically philanthropic in nature and are less focused on the long-term strategic benefits, with the same being true for firms based in Saudi Arabia (Abbas, 2014). However, quite a few companies including Saudi Aramco, SABIC, ALJ, Savola and NCB seek to align their CSR initiatives with their strategic aims and objectives (Khan et al., 2013).

However, research studies have yet to establish clearly what CSRD would actually mean in the Saudi business environment and whether there is indeed a positive correlation between CSR and the long-term profitability of firms listed on Tadawul (Fernando, 2007). Nevertheless, there seems to be very little research undertaken in Saudi Arabia to evaluate the effects of CSR on firms, and correspondingly few initiatives have been taken to make the concept more widely known in the Saudi business and corporate sector (Rathnasiri, 2003; Fernando, 2007).

1.2 RESEARCH AIMS

This research aims to examine the perceptions of CSRD by managers in Saudi Arabia and assess the relationship between CSRD and financial performance in Saudi-listed businesses.

The objectives of this study are the following:

1. To evaluate the perceptions of current CSR practices by business managers in Saudi Arabia.
2. To explore the extent to which Saudi companies disclose their CSR activities.
3. To assess the impact of CSRD on the financial performance of Saudi companies.

1.3 RESEARCH QUESTIONS

The central research question is: What are business managers' perceptions regarding CSRD and how does CSR impact performance in Saudi listed firms? To answer this key question, the central research question is divided into three supplementary or sub-questions.

- Q1. What are the perceptions of business managers regarding the current practice of CSR in Saudi Arabia??
- Q2. To what extent do Saudi firms disclose their CSR activities?
- Q3. What is the relationship between CSRD and firm performance in Saudi?

1.4 RESEARCH CONTRIBUTIONS

The key contributions of the study can be broken down into methodological contributions, empirical contributions and theoretical contributions.

1.4.1. Methodological Contributions

In terms of methodology, this research significantly contributes to the literature, as it adopts a mixed-method research design, which comprises qualitative and quantitative data as well as primary and secondary data, thus enabling a full understanding of the issue from different perspectives.

Previous studies in this field used predominantly a single method of data analysis and a single source of data with minimal triangulation. For example, Abro et al. (2016) adopted the case study approach where they focused on a single case of the largest company in Saudi Arabia, namely Saudi Aramco.

Habbash and Haddad (2019) attempted to triangulate the methods by running different types of panel regressions such as the pooled OLS, fixed effects regressions and random effects regressions but, nevertheless, they lacked triangulation by data sources, and the methods they concerned are variations of the same regression technique. This thesis makes a contribution by using triangulation by sources and triangulation by methods. While previous studies focused either on primary or secondary data, this thesis collects the data from both primary and secondary sources. Moreover, triangulation by method is achieved by combining the methods of regression analysis, content analysis and thematic analysis. In the same way, the methods of data collection vary from the desk research strategy to survey questionnaire and semi-structured interviews. Such a wide variety of methods and different degrees of triangulation have not been observed in any of the previous studies.

1.4.2. Empirical Contributions

This study investigates CSR perceptions and CSRD as it is understood in the Saudi context and then examines the relationship between CSRD and financial performance using the method of panel regression analysis.

Abro et al. (2016) studied CSR practices of Saudi Aramco, which is the leading company in the Kingdom of Saudi Arabia. The authors applied the Triple Bottom Line model to analyse the corporate CSR disclosures. The study finds that the company focuses on sustainable development ethical behaviour, which provides a positive value (Abro et al., 2016). The first study on factors affecting CSR disclosure in Saudi Arabia was conducted by Issa (2017). The study relies on a sample of 109 listed firms and the data over the 2012-2014 period. The results suggest a positive impact of profitability and firm size on CSR disclosure (Issa, 2017). Hence, this means that large firms tend to disclose more CSR information. However, the study is limited to two factors impacting CSR disclosure and do not analyse the impact on firm performance. This gap needs to be addressed.

When it comes to the effects of CSR on financial performance, one of the closes studies to this area is the one conducted by Habbash and Haddad (2019) who examined the relationship between CSR and earnings management in Saudi Arabia. The authors used multivariate pooled regression models on a sample of Saudi Arabian public companies over the 2015-2016 period. The results suggest that CSR implementation correlates positively with earnings manipulation (Habbash and Haddad, 2019). This means that the firms undertaking CSR practices are more likely to manipulate earnings. This can also indicate the weak influence of regulators and external stakeholders in Saudi Arabia. However, the study is limited to one

aspect of CSR that links to earnings manipulation. The study does not cover the overall link between CSR and firm performance in the country. Therefore, there remains a gap in this field as earnings management covers only accounting performance.

Al-Malkawi and Javaid (2018) attempted a study of the relationship between CSR and firm performance in Saudi Arabia. The authors examined a sample of 107 non-financial companies listed on Tadawul stock exchange using the data over the period from 2004 to 2013. The study used the Generalised Method of Moments (GMM) as well as fixed and random-effects regressions. The results found a strong positive influence of CSR on corporate financial performance (Al-Malkawi and Javaid, 2018). This means that CSR implementation can contribute positively to different stakeholders. The authors focused on the concept of Zakat as an ethical way to do business in the country, which is consistent with Sharia principle and is perceived positively by the society. The authors argue that CSR can be effectively implemented in the context of Saudi Arabia. In this case, Zakat is a social responsibility of business to the society and compliance with Sharia laws.

Dkhili and Dhiab (2019) also studied the relationship between CSR and financial performance in the context of Saudi firms. The authors collected the data over the period 2007-2017 for a sample of 300 Saudi companies from different sectors. The results show that there is no link between CSR and performance when the latter is measured by ROA. However, CSR is found to improve financial performance measured by ROE (Dkhili and Dhiab, 2019). Nevertheless, these studies failed to consider non-accounting performance measures such as market-based indicators of Tobin's Q. This gap is filled in by the present research.

To the best of the researcher's knowledge, the relationship between CSR and firms'

financial performance measured by both accounting and market-based variables has not been studied in the Saudi context. Therefore, this study represents an important contribution to CSR literature. This study is expected to help researchers, regulators, and business managers to comprehend the effect of CSRD on Saudi firms. While previous studies such as Issa (2017) noted that financial performance and company size could positively affect CSR activities, there is no substantial evidence of reverse effect.

This thesis will contribute to the existing literature on the subject since this is the first comprehensive investigation of the relationship between CSRD and accounting and market performance of companies listed on Tadawul.

1.4.3. Theoretical Contributions

Even though this study uses an abductive approach with a combination of deduction and induction, it does not aim to develop a new theory in the field of CSR. In contrast, it attempts to test the available knowledge and theories in a specific context of Saudi Arabia. However, a key theoretical contribution of this thesis is that this research is developing an index to measure CSRD based on raw data. While the attempts to create similar indices were made in the past (Simpson and Kohers, 2002), this is the first study to do so in the context of Saudi Arabia and there is no index that is similar to the one used in this research. Therefore, this study has made a contribution by developing a CSR measurement index which is appropriate to Saudi organisations. Such an index would enable the study to obtain a CSRD value and later link it to financial performance proxied by both accounting based and market based variables.

1.5 OVERVIEW OF RESEARCH METHODOLOGY AND DATA

The research has adopted a mixed-method research design. This implies that it uses both qualitative and quantitative data as well as primary and secondary data to achieve the aim and objectives of the study.

This study is an analysis of the CSRD of Saudi Arabian companies and their performance measured by both accounting and market based indicators such as return on assets (ROA), return on equity (ROE), earnings per share (EPS) and Tobin's Q ratio. Quantitative analysis is based on the secondary data published by firms in their annual reports. This data is collected using a desk research strategy using a computer and the internet as primary resources for accessing relevant information (Denscombe, 2014). Each research question is addressed using different methods (Table 1).

Table 1 Research Questions and Methods

Research Question	Methods
1. What are the perceptions of various groups of business managers regarding the current practice of CSR in Saudi Arabia?	Main: Questionnaire Support: Interview
2. To what extent do Saudi firms disclose CSR activities?	Main: Develop a CSR index
3. What is the relationship between CSRD and firm performance in Saudi?	Main: Panel data analysis

For the sampling strategy, the study employs purposive sampling (Saunders et al, 2012) having selected all non-financial companies listed on Tadawul. As of the end of 2019, there were 199 companies listed on the Saudi Stock Exchange, and out of these companies, 108 non-financial companies have been detected (Tadawul, 2019). The sample is limited to non-

financial companies that have published annual reports and which have been listed on the Tadawul since 2010.

The research uses both interpretivist and positivist philosophies and abductive approach, which implies a combination of induction and deduction depending on the research question being targeted (Quinlan, 2011). Primary data have been gathered by means of the questionnaire survey and semi-structured interviews. Secondary data from annual reports have been analysed using the method of panel regression analysis, similar to that of Liu et al. (2015) to assess the links between the observed CSRD and control variables and overall firm performance outcomes.

The research considers several proxies of financial performance including accounting based measures such as ROA, ROE and EPS and market-based measure such as Tobin's Q ratio. This triangulation of methods, data and proxies allows for achieving more reliable and credible results (Bryman and Bell, 2012; McKnight and Weir, 2009; Bolton et al., 2011).

1.6 THESIS STRUCTURE

The introductory chapter provides introduction to the theme and background of the thesis.

Later, the thesis is divided into two sections. Section I contains 4 chapters. Chapter 2 outlines the background of the research, i.e. Saudi economy and business practices and CSR. Chapter 3 is a traditional literature review chapter to set the scene for all three research questions, while Chapter 4 discusses the methodological issues.

Section II contains four chapters and discusses the analytical findings to answer all three research questions and final conclusions of the thesis.

The final chapter compiles all the research findings and puts forward a discussion, conclusion and recommendations.

1.7 SUMMARY

Past researchers have studied CSRD and its relationship to performance in both the developed and developing countries (Elsayed and Paton, 2005; Nelling and Webb, 2009; Kang et al., 2010), but to the best of the researcher's knowledge the relationship between CSRD and financial performance in the Saudi context has not yet been studied. Therefore, this study represents an important contribution to CSR literature in Saudi Arabia. Finally, this study is expected to help researchers, regulators and business managers in Saudi Arabia comprehend the effect of CSRD on firms listed on Tadawul.

Section I

This thesis is a study of CSR and CSRD in the Saudi business world. This section provides the reader with a brief introduction to Saudi business world and CSR, a review of existing literature related to the three research questions and a discussion of methodological issues.

Chapter 2: Background

2.1 INTRODUCTION

Corporations increasingly adopt socially responsible policies and activities. Corporate Social Responsibilities (CSR) policies are both beneficial to the performance of the corporations and to its extended business managers in society. Corporate Social Responsibility Disclosure (CSRD) is one of such policy which involves providing consumers with adequate and enough information about CSR. Disclosure of information is essential because without such information it is impossible to judge the opportunities and risks of investment, therefore, investors regards CSR reports as extra-financial information by when forming their investment decisions (Yelder, 2013). Therefore, this chapter explores the dynamics of CSR in Saudi Arabia by looking at its macroeconomics, political and regulatory requirements of corporate world and structures and roles of Capital Market. Moreover, the chapter analyses the concept of CSRD and how it has been practiced in Saudi Arabia, eventually drawing a conclusion from synthesizing the main themes generated from the chapter with the overall aim of this study which is establishing the nexus between CSRD and firm performance in Saudi Arabia.

2.2 KINGDOM OF SAUDI ARABIA

Saudi Arabia is a country named after the Saud dynasty and which has remained under the rule of this family since 1902. The country in its current form came into existence in 1932 after the unification of the areas controlled by Ibn Saudi under the Kingdom of Saudi Arabia and Ibn Saud became its King. Saudi Arabia is an absolute monarchy and religious traditions are given extreme significance. The King acts as the Prime Minister and the head of

government and appoints the Council of Ministers who exercises both legislative and executive powers since there is no elected legislature. The King also appoints Majilis al-Shura (the Consultative Council).

Moreover, the country has also been described as a ‘patriarchal desert state’ and characterizes the pursuit of modernization programmes by the traditional elites as ‘the contradiction of Saud Arabia today’ (Wenner, 1975). These visible conflicts between traditionalism and modernism may be plausible, but the contemporary Saudi Arabia is certainly a mixture of old and new. The political changes in 2015 which saw King Abdullah bin Abd al-Aziz Al Saud appoints successor and half-brother, King Salman who took office in January 2015 and chose a more active role, both inside and outside Saudi Arabia. Roelants (2016) shows a kingdom that is slowly moving towards an open society. The subsequent appointment of Prince Muhammad bin Salman, an ambitious young son as the Minister of Defence and economic supremo shows the kingdom is fully controlled by the same family although it is trying to include the younger generation in its political structure. Nevertheless, the young prince has injected new approaches to the economy, especially his ‘vision 2030’ which aims at modernizing and partly privatizing the Saudi economy. However, Saudi Arabia is still ranked as corrupt country at number 57 out of 180 countries and scoring 49%. The country rank indicates its position relative to the other countries in the index, while the score indicates the perceived level of public sector corruption on a scale of 0 (highly corrupt) to 100 (very clean) (Transparency International, 2017). However, the current government has put strict measures to combat corruption, including the Crown Prince, detaining dozens of high-ranking businessmen and technocrats such as Waleed bin Talal, an international investor and Waleed al-Ibrahim a media mogul detained on November 4th 2017 (Moshashai, 2018).

Although this is a noble move by the Crown Prince, it stands to alienate potential investors who may be wary of arbitrary decisions threatening their stakes in the Saudi economy as explored in the next subsection on macroeconomics.

2.2.1 Macroeconomics

The oil industry has been the bedrock of the Saudi economy. During the 70s and 80s, 95% of the national budget was funded from oil revenues, but this decreased in 1990s to about 75% (Angeli, 2012) but then increased to an estimated 69% in 2017 (Fattah, 2016). The lack of fiscal institution that would allow Saudi Arabia to maximize the pay-out of oil revenues over time while reducing the income volatility has contributed to scant buffering between the unpredictability of the oil market and the stability of Saudi fiscal policy. Countries such as Norway has had long-term measures of diverting oil and gas revenues into pension funds. The poor fiscal shape, especially after the crash of oil process in 1998, made the Saudi government borrow from Emirates of Abu Dhabi to prevent bankruptcy. During the second oil boom in 2000s, the government prioritized in paying the outstanding public debt which had fallen from 82% GDP in 2003 to only 3% in 2013, while capital expenditures rebounded to 11.1% of GDP by 2013 (Elliot, 2016). These discrepancies between the actual and planned revenues reflects the instability in Saudi resulting from the overreliance of oil as the only main macroeconomic indicator.

However, the steady fall of oil prices has seen monarchies of the Gulf Corporation Council, such as Saudi Arabia, embark on various policy programs to diversify sources of economic growth and state income to address the fiscal shortfall (International Monetary Fund, 2013). Saudi Arabia has embarked on the social economic reforms known as the ‘Saudi Vision

2030' and which includes National Transformation Plan (NTP) and Fiscal Balance Program (FBP). These reforms detail specific measures that the Saudi government ought to take to stabilize the volatile economy. The FBP, for instance, calls for the government to balance the budget by 2020 and funds derived from the investments rather than oil are to become the government main source by 2030 (Moshashai, 2018, p. 2). Consequently, the next subsection explores the corporate world in Saudi Arabia and its political and regulatory requirements.

2.2.2 Corporate World - Political and Regulatory Requirements

Saudi Arabia being one of the world's largest of producer of oil and its influence in Gulf has placed it as the leader of the Organization Petroleum Exporting Countries (OPEC) (Aleisa, 2004), consequently becoming a novel hub for doing business. Saudi Arabia was ranked number 98 in 2018 index of economic freedom as moderately free. This index analyses economic policies in a country and grades them on 12 measures¹ of economic freedom, evaluating the rule of laws, government size, regulatory efficiency and the openness of the market (Miller, 2018). A prominent observation of economic indexes was the fiscal health, which scored 19.7% being the lowest of all other rankings and this attributed to early analysed oil prices' volatility. Business and investment freedom scored 74% and 40% respectively which shows investment freedom was still low. However, the report by the Word Bank (Word Bank IBRD-IDA, 2018) on the ease of doing business by measuring business regulations, highlighted several reforms that the Saudi government effected in 2018. Some of the reforms that made it easier to do business were; use of online platforms to start a

¹ Property rights, judicial effectiveness, government integrity, tax burden, government spending, fiscal health, business freedom, labour freedom, monetary freedom, trade freedom, investment freedom and financial freedom.

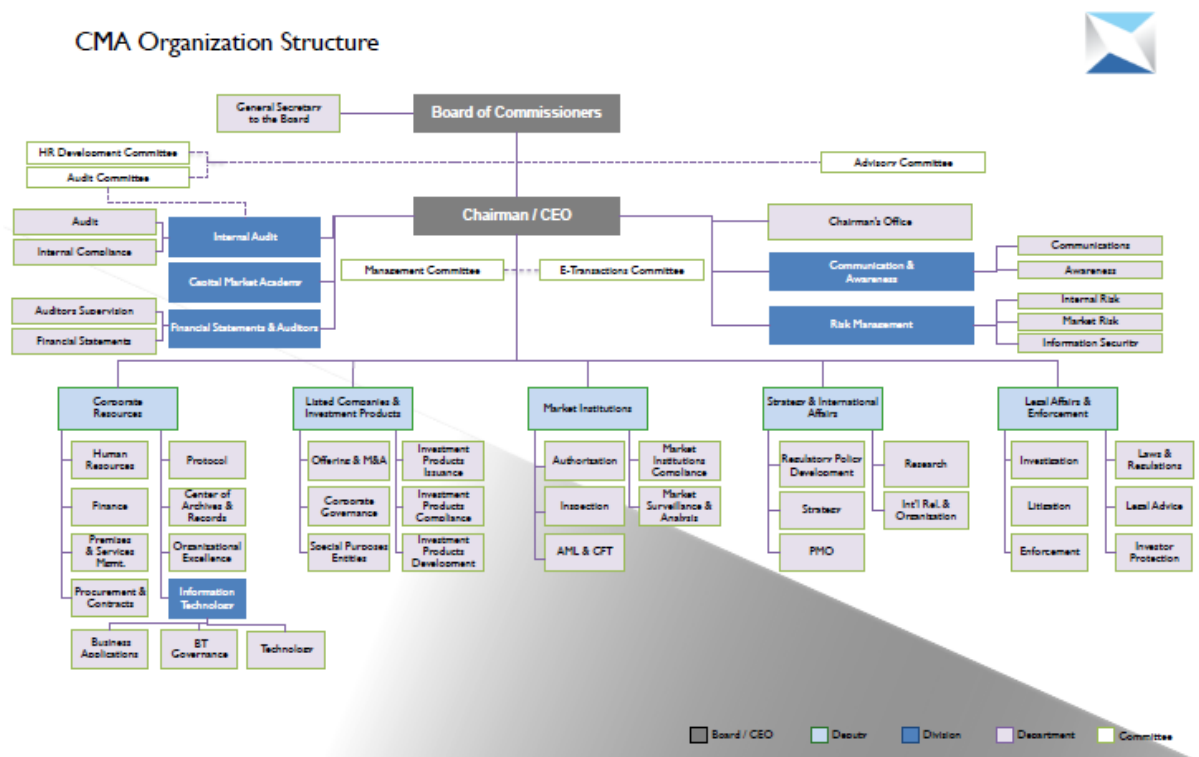
business, registering property and paying taxes. Other reforms were protecting minority investors by increasing shareholder rights and clarifying ownership and control structures, reducing documentary compliance for exports and imports thus promoting trade across borders and enforcing contracts easier by introducing an e-case management system to be used by the judiciary. These reforms were streamlined to fit with the new economic transformation program which emphasized the diversification of Saudi Economy by suggesting selling 49% of the main oil company Aramco to private investors by 2018 as well as planning to stimulate Islamic banking through adoption of its principle of moderation (Jawadi, 2018, p.6356). However, these reforms have collateral effects to corporate world since they propose austerity measures and reduction in subsidies and public employment that are provided into Vision 2030. Moreover, the success of these reforms is dependent on the external factors such as response of potential investors to Saudi new economic reforms and ability to obtain funds from global financial markets. Therefore, the next section will look at the structures and rules of capital market in Saudi Arabia.

2.2.3 Capital Market – Structure

The Capital Market in Saudi Arabia has been in existence from early 1950s although it got its formal recognition from the government in the eighties. The formal establishment of the current Capital Market Authority (CMA) came into existence through promulgation of the Capital Market Law in pursuant to Royal Decree No. (M/30) dated 2/6/1424H (Capital Market Authority, 2018). The duties and authorities of the CMA includes regulating and developing the capital market and promoting appropriate standards, protecting investors and public from financial crimes, developing appropriate measures to reduce securities

transactions' risks, monitors and regulate issuance of securities. The CMA governance board has five fulltime commissioners appointed by the Royal Decree and it seeks to implement the best corporate governance practices as it performs its supervisory and regulatory functions. To achieve this, the board is assisted by the executive managements, departments and advisory committees who forms the organizational structure of CMA as shown in the Figure below.

Figure 1 Saudi Arabia Capital Market Authority Organisational Structure



Source: Capital Market Authority (2018)

2.2.4 Capital Market – Rules

The CMA in Saudi Arabia is governed by the Capital Market Law pursuant to Royal Decree No. (M/30) dated 2/6/1424H - 31/7/2003 (Capital Market Authority, 2018) and it aims at creating a fair, transparent and regulated market that competes with other international

financial markets and keeps pace with current developments. The articles in law are formulated to develop and regulate capital market, supervise the issuing of securities and their transactions as well supervising licensed personnel. However, there are implementing regulations which are procedures, instructions and rules issued by the CMA to implement the Capital Law Market Articles. Some of the rules include: rules for qualified financial institutions investment in listed securities, rules for special purposes entities, rules on the offer of securities and continuing obligations, prudential rules, anti-money laundering and counter-terrorist financing rules, and regulatory rules and procedures issued pursuant to the companies' law relating to listed. However, while CMA has been offering and listing rules that pertain to both equity and debt, most of them are designed in an environment that targets equity listing (James, 2017). Moreover, as these rules are aimed at transforming the capital market of both domestic and regional markets, they have direct impact on the corporate firm performances and how they relate with the Saudi society and hence the next section explores the concept of corporate social responsibility.

2.2.5 Socialist and Islamic Factors Affecting CSR and Its Perception

Most of the existing research relies on theories and hypotheses found reasonable in developed countries of North America, Europe and Australasia, and little attention is paid to Muslim countries such as Saudi Arabia. Saudi Arabia is a Muslim state, so it is substantially impacted by Sharia principles and this also has an influence on corporate behaviour and CSR as well. According to Basah and Yusuf (2013), the religious basis of the Islamic banking and management in the Muslim world makes the local business closer to more proactive CSR practices. The authors studied the behaviour of Islamic financial institutions in the MENA

region. Hence, the study is limited with the focus on the financial sector and ignores non-financial business and the impact on CSR. However, the key finding is the convergence between Islamic religious traditions and CSR principles. Similarly, Franzoni and Allali (2018) linked Sharia principles to Islamic finance. The authors suggest that Islamic finance comply with ethical behaviour and responsibility. The Sharia principles are based on five pillars – ban of charging an interest, profit and loss sharing, ban on speculation, ban of trade and use of prohibited assets and the obligation to back any transaction with real assets (Franzoni and Allali, 2018). Therefore, traditions and social norms in Muslim countries should be supportive to proactive CSR practices and sustainable corporate behaviour.

Nurunnabi et al. (2020) studied the role of CSR from the perspective of young consumers in Saudi Arabia. The authors applied the Carrol's CSR pyramid to find some significant differences in the country. The study reveals that philanthropy is the key area of CSR in Saudi Arabia (Nurunnabi et al., 2020). This means that CSR practice is different from the one in the Western countries. The study finds that societal interests are more important than shareholder value maximisation, and ethical behaviour is valued by stakeholders (Nurunnabi et al., 2020). Hence, this means that sustainability and society-related principles of CSR are highly rewarded in the Islamic context. Similarly, Pinto and Allui (2020) analysed barriers and drivers of CSR in Saudi Arabia. The authors focused on the country's private companies from different economic sectors. The study reveals that CSR is on the rise in Saudi Arabia due to ethical commitment and an increasing role of corporate image (Pinto and Allui, 2020). However, there are also barriers to effective implementation of CSR. The authors suggest that the lack of managerial and investor commitment hinder the implementation of CSR policies outside the realm of philanthropy.

Gravem (2010) studied the understanding of CSR in Saudi Arabia. The study relies on a sample of both public and private companies in the country. The results suggest that development of social capital is the key emphasis of CSR development in Saudi Arabia (Gravem, 2010). The results also indicate that social norms strongly impact CSR implementation. However, the study does not consider any political and cultural norms and does not evaluate the relationship between CSR and firm performance.

Al-Gamrh and Al-dhamari (2016) studied the CSR disclosure in Saudi Arabia. The study relies on a sample of Saudi firms listed on the Tadawul. The authors identified six firm characteristics that have an impact on CSR disclosure. The results reveal that Saudi firms have low disclosure scores. However, the disclosure varies by firm size as large companies tend to provide more information on CSR activities (Al-Gamrh and Al-dhamari, 2016). In addition, the authors found that environmental responsibility was not significant in the CSR score. This suggests that CSR practices differ from those in the West and are largely driven by local culture and traditions of Muslim society.

Saudi Arabia is the country that is dominated by the state owned business, peculiar to socialist economies, and dependent on oil industry and its major company, Saudi Aramco. In addition, the Sharia dictates that government should protect the society, which predetermines the social environment in the country (Rini, 2020). This may indicate that there are some differences in CSR perceptions between public and private enterprises. Islam et al. (2016) studied sustainable procurement practices of public and private organisations in Saudi Arabia. The authors used a questionnaire method and analysed a sample of 400 directors/managers in Saudi Arabia. The results indicate that there are significant barriers to effective implementation of sustainable procurement practices that are caused by cultural aspects

(Islam et al., 2016). Moreover, there are no differences between public and private organisations.

Tilt (2016) studied CSR and its applicability in different countries and argues that context matters. Saudi Arabia is a country that is dominated by the oil industry and strong power of the state and the ruling dynasty. This means that the country has different perceptions of sustainability and social responsibility (Tilt, 2016). According to Saeidi (2019), implementation of CSR in Saudi Arabia faces local endogenous features that originate from the country's cultural environment and socialist and Islamic factors. At the same time, private companies have their own unique perceptions of CSR, which leads to distinctive CSR characteristics in Saudi Arabia. This means that the country's CSR activities are determined by unique cultural, social and religious phenomena. Murphy et al. (2019) investigated perception of CSR in Saudi Arabia and whether there are any differences from other Muslim countries. The study shows that the suggestion that the country's rentier-state welfare accounts for the differences. The results indicate that Saudi people are more aware of corporations' CSR policy compared to other Muslim countries (Murphy et al., 2019). In addition, the authors mention that female respondents advocate for more active CSR implementation. The perception of CSR is found to be strongly influenced by gender and education level with female and better educated individuals showing greater concerns about CSR policies.

Religion and contextual dynamics can lead to differences in perceptions of CSR among countries. Koleva (2020) studied the data from the Middle East to develop an empirical model of Islamic CSR. The study is based on interviews from 63 organisations from Saudi Arabia, the UAE and Oman. The results confirm a significant impact of the religious context (Koleva,

2020). CSR perceptions are grounded in social and altruistic actions that align with the local cultural traditions and Sharia laws.

Alfakhri et al. (2018) studied the context of an Islamic CSR in Saudi Arabia. The authors focused on young Saudi consumers and their perception of CSR. The study relies on interviews in the country's two major cities and uses social contract theory. The results find that the societal actions are highly appreciated by young consumers in Saudi Arabia, which complies with Sadaqa or values and intention (Alfakhri et al., 2018). This means that CSR should be applied for the benefit of the society.

2.3 CONCLUSION

Although Saudi Arabia has established CSR policies and frameworks, this study has found that the level of disclosure is still low. Nevertheless, the CSR concepts are well known in the Saudi Arabia and the CMA has issued rules and regulations on how the listed companies ought to operate. Moreover, the ambitious social economic reforms that Saudi Arabia government has initiated are opening the corporate world to diverse international market practices that include CSRD and adoption of CSR policies. These developments will have transformative impacts on the capital market of both domestic and regional markets since they have direct impact on the corporate firm performances and how they relate with the Saudi society. In conclusion, the chapter found that the role of Saudi government in improving the CSR activities is paramount as it opens its investment base to the external investors.

Chapter 3: Literature Review

3.1 INTRODUCTION

This chapter aims to present a review of literature on the concepts of CSR and CSRD examining them in general and in specific cases of developed and emerging economies. The chapter is structured in line with the research questions and objectives. Specifically, the first part of the chapter deals with the concept of CSR and its perception. The second part of the chapter explores CSRD and developed countries and emerging economies. The third part of the chapter discusses the relationship between CSRD and financial performance based on previous empirical evidence from developing and developed countries.

3.2 CORPORATE SOCIAL RESPONSIBILITY (CSR)

Schwartz (2017) defines CSR as the ability of businesses to act in an ethical way, taking into account the interests of all stakeholders and the concerns for the environment and local communities. The scope of CSR has made its meaning to be elusive, with some scholars opining that ‘CSR has become a cult term’ (Emmot, 2002). Its familiarity is common, but getting its precise meaning can only be gauged by its context, because it encourages the companies to shoulder huge responsibilities and at the same time discouraging them from engaging in any activity beyond the pursuit of commercial profit. That is, the main objective of companies is to make profit but through the CSR concept the businesses have a responsibility to contribute to economic outcomes that meet societal expectations. However, this approach was castigated by Milton Friedman who regarded companies using their resources for other ends other than making profit as irresponsible (Friedman, 1970).

Therefore, the definition of CSR has undergone several chronological modifications from the time it emerged in 1953. However, this study defines CSR as how business align their values and behaviour with the needs and expectations of business managers including communities, customers, investors, employees, suppliers, special interests' groups and society as whole (Beal, 2014). This study has utilised this definition because it is not merely descriptive but normative since it embraces the collective societal good by including all business managers in the society.

The overall objective of CSR is to aid companies produce positive effects on society. This implies that through CSR, the businesses create a long-term approach towards adding more values to shareholders by incorporating the societal concerns thus managing risks that can be derived from economic, social and environmental developments (Sustainability, 2008). Therefore, the importance of CSR is to balance between business and society in a wider sense by looking outwards and making judgements on the way in which societal expectations of business are developing. That is, companies must be cognizant of the fact that their decisions have wider consequences and thus must be considered in their own decision-making process. and Treating CSR as a business model that integrates a self-regulatory mechanism to map the business' ripple effects within the realm of its societal, economic and environmental existence (Waldman, 2009) must follow principles and procedures to make it effective and efficient. The essential principles in the CSR are respect for human and moral rights, contributing to sustainability, maintaining integrity, promoting dialogue and all these can be summed up as the four principles which are: moral obligation, sustainability (environmental and community stewardship), licences to operate and reputation (Beal, 2014). The moral

obligation shows that the firms have a duty to uphold virtues in the society by doing the right thing, whole sustainability focusses on the future generation by not doing harm to the environment. Licence to operate recognizes the legality of the firm through the support of all business managers and finally reputation justifies the CSR initiatives to contribute positively in society. These principles are well connected with the procedures as presented by the concentric model of CSR (Committee for Economic Development, 1971) and the pyramid model of CSR (Carroll, 1991). In these two models, the CSR procedures should start with economic responsibilities and then proceed to satisfy legal and ethical responsibilities, which is awareness of changing values and eventually addressing the philanthropic responsibilities or emerging responsibilities in society. To contextualise all these, the study explores CSR in Saudi Arabia.

The growing interest in the idea of CSR among stakeholders makes non-compliance with CSR standards a significant source of risks and bad reputation. Therefore, Saudi Arabian firms have started paying attention to CSR by instituting guidelines and programs. Mandurah et al. (2012) examined CSR activities in Saudi Arabia by surveying 120 managers to assess their awareness of CSR and how they have integrated CSR policies in corporate activities. The findings indicated that 65% of respondents were aware of CSR and are moderately confident social goals are well integrated into their firms' goals, and there were sizeable levels of CSR activities in Saudi Arabia. However, the study by Macarulla (2012), which examined 132 Saudi listed firms in 2008, found that there was a low level of CSR disclosure. The main drivers of CSR were industry type, firm size and profitability. Moreover, another online survey of the CSR disclosure in the Gulf Cooperation Council countries, which included 44 Saudi firms, found that only 21.86% of the 44 firms had online disclosure

(Khasharmeh, 2013). Therefore, these findings necessitate this study to explore CSRD in Saudi Arabia on a deeper level.

3.2.1 HOW BUSINESSES PERCEIVE CSR AND

CSR is of growing concern among businesses that seek to behave ethically and seek to contribute to sustainable economic development by working with relevant business managers to improve their lives in ways that are good for business, the sustainable development agenda, and society at large. A more-recent study by Khan et al. (2013) shows that CSR has moved from companies making donations to charity to now being embedded within business culture. In this section, three key theories are debated, namely: (1) the CSR Pyramid, (2) Stakeholder Theory, and (3) The ‘Triple Bottom Line’. The discussion of these theories will help understand how businesses perceive CSR.

CSR is a broad concept and perceptions of CSR activities are usually distinguished in specific areas such as recycling, green energy, waste reduction, community work, etc. (Visser, 2011). Wright and Bennett (2011) link CSR with the ‘Circular Economy’ a concept that promotes greater recycling and renewable energy in the system to ensure the long-term sustainability. Given such a broad array of potential actions, CSR differs between businesses, business managers, and countries (Carroll and Buchholtz, 2014). Gjolberg (2009) shares these ‘concerns’ over CSR, noting that while the ISO may have created standards to be followed, there is no agreed upon measure for showing CSR from businesses. The researchers study CSR practices in 20 countries including the US and the UK, noting that it becomes difficult to make comparisons given the different domestic structures in each country. Specifically, Carroll and Buchholtz, (2014) note a financial relationship between CSR and business

involvement. In some countries, businesses are more engaged within CSR practices as a result of pressure from society, and this makes CSR activities essential for maintaining growth in sales and financial performance, especially in the stock market. CSR initiatives may also come with an added cost to the business, meaning that management needs to approve such proposals and explain them to their business managers (Visser, 2011).

There are major differences between CSR reporting among countries. Harmonisation can be seen between some 'Western' countries considering the adoption of the ISO standards (Moratis and Cochius, 2017) and the concentration of Multi-National Enterprises (Fortanier et al., 2011). However, this changes within developing countries where local businesses may have a greater hold of the market. Shehadi et al. (2013) demonstrate this within Middle Eastern countries where state-owned enterprises may have a higher level of market share. These state-owned enterprises are more opaque when it comes to reporting, both financially and ethically.

This concept may be consistent with pressures from regulators and the government. Pressure from regulators will ultimately depend on their power. Steurer and Berger (2011) argue that businesses in Western Europe are more prone to CSR initiatives as a result of the active role that governments seek to improve sustainability within their economies. The power of governments can be seen in several forms ranging from the application of taxes on carbon emissions to regulation on pollution and policies aimed at voluntary involvement in schemes related to recycling. Consumers also have a similar power to impact businesses; however, the main difference is that the power of consumers is often dispersed (Öberseder *et al.*, 2013). In order for changes to be brought through, there needs to be agreement between consumers to consolidate their power.

3.2.2 CSR IN DEVELOPED ECONOMIES

To Visser (2011), the increased focus on CSR has been Western focused, spearheaded by business managers within the US/ Europe who have become more educated about it and involved within CSR, be that reducing waste, or combatting climate change. Matten and Moon (2007) cite unprecedented momentum in Europe for the concept of CSR, overlapping into a cluster of business concepts, including business ethics, corporate philanthropy, corporate citizenship, sustainability and environmental responsibility. The main driver of this momentum was the consumer, and the increasing value they placed on being sustainable themselves, in turn prompting businesses to make products/ services which linked in with their customers' ethical standpoint. Midttun *et al.* (2006) contend that a greater movement towards CSR was inevitable after a prolonged period of neoliberal market economies throughout the developed world which in turn uncoupled commercial, and societal concerns. It was now expected that the businesses which have over time degraded the environment would take a more-active approach in finding and implementing a solution.

Mermoud and Idowu (2014) provide the link here as information, and education, with business managers in developed countries having greater access to information from online sources, as well as the media, which again Luo et al. (2011) in developed countries focused on in the need for sustainability. As a baseline, work from Aguinis and Glavas (2012) reviewed the focus of 588 journal articles, finding that 500 of those (85%) focused on developed economies as opposed to developing. Interestingly, the authors also found that the majority of articles addressed the organizational (57%) and institutional (33%) levels. From the

opposite viewpoint, very few address individual (4%) and multilevel (5%) analysis. As for the years of publication, the authors found that from 1990 to 2005, the number of articles published on the subject per year doubled. With most of the articles reviewed here focusing on business, there is a link with work from Park and Ghauri (2015) which also focuses their attention on globalization, and MNE's, which in turn suggests why work is centred on developed economies.

However, existing work has also centred on institutions within developed economies, mainly on the government. One theory to mention here is Carroll's CSR Pyramid (shown below, Figure 1.1), a model which argues how a business should look to meet their social responsibilities (Carroll, 2016). At the bottom of the pyramid is the economic foundation, with the model suggesting that profit comes first for the business, a comment which can be backed up by Spence (2016) who suggests the main aim of the business being profit maximization. However, this also brings in a discussion about sustainability, given that the only way for the business to survive in the long-term is to provide benefits to society which ensure the sustainability of the business. This is interesting when discussing businesses such as Tesla Inc. (an American automotive and energy company based in Palo Alto, California) focused on electric vehicles but still unable to make the profits seen by peers involved in conventional vehicles such as Ford (Bohnsack et al., 2014). However, even with this, Tesla is still able to gain significant funding from investors given that the business is seen as a long-play within the market, being able to expand in the long-term given the benefits that electric vehicles (hereafter EV's) present to society as a whole.

Figure 2 Carroll's CSR Pyramid



Source: Riley (2016, p.1)

The next stage of the model is 'Legal' which brings in regulation and laws. While this is secondary to economic needs, Baden (2016) does suggest that regulation is more important given that businesses may have to forgo profits to meet new standards, or laws from the government. This is more prominent within developed economies where the government may be more concerned with CSR, and more coordinated within their response. The ability of the government to implement regulation within developed economies is also supported by agreement from other business managers, including trade unions, consumers, and even businesses who understand the need to improve sustainability (Carroll, 2016). Yin and Zhang (2012) discuss this alongside differences in developing economies such as China, noting that in developing economies, the focus may be on economic growth, meaning that government is reluctant to put in regulation which may impact on the competitiveness of their domestic businesses. This is also discussed in Noronha et al. (2013) who see governments in

developing economies more protective of their domestic businesses, especially when economic growth is export orientated.

Linking back to the CSR Pyramid, the next stage is ethical, suggesting that businesses would go beyond the narrow requirements of the law to act morally and ethically (Baden, 2016). Work from Marsden (2000) focused on the 'Good Corporate Citizen', seeing businesses go beyond regulation regarding CSR, which for many is then used to differentiate the business, and develop a competitive advantage. What must be remembered is that consumers in developed economies are more aware of environmental issues than those in developing economies (Schwab, 2008), which may instead be focused on improving living standards. With this, consumers in developed countries have a higher ethical standpoint, which is then placed on businesses to achieve (Visser and Tolhurst, 2017). A business in the UK may look to improve its CSR, and market such to consumers in a bid to increase their reputation, and the reputation of their products. Consumers may gain a higher utility from greener, or more sustainable products, meaning that they place a higher value on these products. Thus, the business could potentially charge more for these, meaning that there is a direct link between CSR and profitability (Epstein, 2018). As also mentioned in Crane *et al.* (2016) it pays for the business to go beyond the regulation. However, the level of this will be dependent on the consumer and where they place value. Idemudia (2011) discusses how consumers in developing economies may be less concerned with the environment, instead putting their focus on improving their living standards, potentially trying to replicate the standards seen in Europe or the US.

The final part of the pyramid is 'PHILANTHROPIC', a term which suggests that it is the responsibility of businesses to give back to society (Visser, 2006). This responsibility is

discretionary, and may include charitable donations, and supporting CSR projects, however it is still classed as important. To Carroll and Buchholtz (2014), the assumption of 'philanthropy' would be that it is driven by wealthy individuals, with notable examples being Bill Gates who set up his foundation to focus on improving healthcare within Africa. However, the pyramid model here suggests that philanthropic efforts can be seen much wider in economies, from charitable donations to voluntary programmes aimed at improving the environment. Again, in developed economies there is the idea that businesses are more engaged within CSR, especially local CSR initiatives, in a bid to support, and appease business managers, and especially their customers. Preuss et al. (2006) discuss the context of CSR within Europe and their link with trade unions. Firstly, the researchers here note that trade unions in countries with a strong 'corporatist' tradition claim to be themselves drivers of CSR given the power they have over industries, especially in countries such as Germany where trade union membership is high. An altogether different situation exists in the developing economies of Eastern Europe, where unions lack the legitimacy and influence to shape the emerging CSR agenda (Preuss et al., 2006). The focus here is on *power*; with similar conclusions from Tang and Tang (2012) suggesting that CSR differs in developed economies given the power that business managers have to force through changes to businesses.

In Carroll and Buchholtz (2014), the main aim of the businesses is to maximize their profits, which alone would suggest that CSR measures, and the costs involved with them, would have a negative impact on financial performance. However, when business managers have greater power over the business, there is more chance for the business to be influenced. To Visser and Tolhurst (2017), therefore, businesses are now more engaged with CSR given that they

seek to meet the needs of their customers, who are now more worried about sustainability and climate change among other issues. However, while there is a consensus that this power is used for good (see Boulouta and Pitelis, 2014; Tata and Prasad, 2015), there are those researchers who show the opposite. Dam and Scholtens (2012) investigated how ownership concentration in European listed businesses impacted on CSR activities. Factor analysis was employed in the work for almost 700 European businesses. The key finding was that shareholder concentration was significantly related to such policies. However, apparently against Visser and Tolhurst (2017), Dam and Scholtens (2012) suggest a negative relationship in their analysis. Thus, the more concentrated ownership goes hand in hand with poorer CSR policies, while it was also noted that those businesses with a more concentrated holding tend to be worse with CSR. It is suggested that especially with large shareholders, CSR would need to be included in their performance assessment for them to demand a change within a business.

When it comes to business value, the initial consideration would be profitability, however there are other metrics which can be considered such as the market capitalization of the business. The ‘Triple Bottom Line’ (TBL) is an accounting framework with three parts; namely financial, social and environmental. Originally coined in 1994, the framework could also be summarized as the 3Ps: profit, people and planet (The Economist, 2009). In some senses the TBL is a manifestation of the balanced scorecard given that it aims to have balanced businesses with a focus on people and the environment. Businesses have moved further into this framework to present a rounded approach to business, and dispel the prior belief that their only concern was profit maximization. However, according to Elving et al. (2015), this has not been an easy change for businesses, and there are still issues with

reporting CSR. For instance, profits can be measured in £GBP/ \$USD. How to measure social capital measured and the environmental issues are still open for debate. Fukuyama (2001, p. 12). While the main challenge is finding a common unit of measurement (Epstein, 2018). The final theory to mention here is ‘Stakeholder Theory’. The main idea behind this theory was that for a business to be sustainable, and work in the long-term, it needed to not only create value for itself, but also for business managers, from suppliers to customers. CSR could thus be seen as an extension to the business model which is focused purely on meeting the needs of external business managers in the business. Internally, the main driver of the business being profit maximization. However, to remain sustainable, a percentage of this would be diverted to fund CSR-related projects. The level to which income is diverted to CSR initiatives would be dependent on the stakeholder power (Ackermann and Eden, 2011). Dawkins (2014) discusses how the power of business managers is greater in free market economies, whereby businesses are publicly listed and markets are competitive. If a business fails to provide the customer with the desired good/service then they will simply look elsewhere. This may not be the case in a command economy whereby the production, and supply of goods/ services is driven by state-owned businesses that have a monopoly over the market. In this case, stakeholder power may be low, making it difficult to push through CSR demands.

3.2.3 CSR IN EMERGING ECONOMIES

CSR could be considered an ‘umbrella’ term, which incorporates multiple meanings that differ between countries. While CSR refers to the responsibility of the business to society, this is not static; the responsibilities demanded by society may differ. Hopkins (2012) finds

that developing countries themselves may be less concerned with CSR activities as they place economic growth, employment, rising incomes all higher. Albeit often defined differently, both Blowfield, and Frynas (2005) and Prieto-Carron et al. (2006) concluded that there have been similar approaches in many countries, with a focus on specific issues, from environmental concerns, to waste reduction. To Fox (2004), the diffusion of policy instruments in CSR is being carried from Multinational Corporations (MNC) into the developing world, prompting local competitors to adopt similar processes in a bid to remain competitive. A large number of studies have highlighted the economic potential for MNC's to expand into developing economies, seeing businesses from PandG, Apple and Ford all expanding into these new markets (*see* Kirchgeorg and Winn, 2006; Prahalad, 2009; Thorpe and Prakash-Mani, 2003; World Business Council on Sustainable Development, 2004). Together, these businesses that originated in the US/ Europe have spread a plethora of terms around developing economies such as "Doing well by doing good", terms which have expanded the focus on CSR. Jamali (2010) dampens this view though by concluding that while MCS's do undertake CSR initiatives in developing countries, they are usually diluted compared with their actions in developed markets, driven to meet the host markets characteristics. One current example is McDonalds. Beament (2018) notes how the UK subsidiary is seeking to cut plastic waste by cutting plastic straws from their restaurants in the UK following other UK businesses in cutting wastage as public concern grows. However, the announcement from McDonalds only noted the UK, and since there has been no announcement on whether the business would adopt such an approach in other markets such as China. This is an example of dilution, with the CSR undertaken in the host market driven

by the individual characteristics, and in this case the demands of their local business managers.

Michael (2003) argues that CSR has shown to be an attractive option in relation to regulative approaches for several reasons, being (a) it has allowed businesses to increase their autonomy from regulation and essentially self-govern themselves within the area of CSR; (b) governments can devolve responsibility related to issues of ‘sustainability’, which in turn allows them to save scarce resources, and (c) non-governmental agencies can raise their own profiles through supporting CSR efforts. Blowfield (2005b) argued that one tangible result of the CSR movement in developing economies is that it has got business managers talking about the issues – noting it *“has got people talking about worker rights, global governance, sustainable enterprise and all manner of topics that have relevance to the well-being of the poor and marginalized”* (Blowfield, 2005b, p. 515).

However, there have always been researchers who suggest that CSR is not currently compatible with some communities. As mentioned, CSR can have implications for businesses and consumers alike, potentially leading to increased costs/ prices, or changing behaviour. In analysing the relationship between companies and poorer local communities, Newell concludes that *“mainstream CSR approaches assume a set of conditions that do not exist in most of the world. CSR can work, for some people, in some places, on some issues, some of the time”* (2005, p. 556). Similar conclusions have also been discussed in Pederson (2006) who follows on from this concept that CSR is an ‘umbrella’ term. The idea of CSR in Russia may differ to that in Nigeria, and to some extent will be driven by the demands of local business managers. With this in mind, it has been mentioned in several pieces of research that CSR developments have overemphasis on business reputation as opposed to

dealing with actual problems (see Frynas, 2005; Klein and Harford, 2005; Utting, 2005). To Fox (2004), CSR has always been seen originated in the 'North', led by the US/ and Europe, however the definitions of CSR are largely driven the actions of early adopters. This is not compatible with actions in developing economies, which in turn could lead to CSR initiatives going unreported.

When it comes to discussing Saudi businesses and CSR a distinction needs to be made between state-owned and private businesses. According to Roper and Schoenberger-Orgad (2011), there is a notable difference with state-owned businesses given they report less to the market. Bolivar et al., (2015) put the relationship of CSR in state-owned businesses with management, along with their attitude to CSR policies. The role of State-Owned Enterprises (SOEs), is to provide services to society and not principally to obtain financial reward, and with this the focus may not necessarily be CSR. The researchers here concluded that (a) the manager profile and (b) the sector in which the SOEs work both have a strong influence on their behaviour regarding CSR issues. The work also finds that while management of SOEs are aware of CSR activities in their sector, they may necessarily have the resources to push through changes themselves as the government have other ideas. For instance, Shen and Chen (2017) discuss how Chinese SOEs in steel and coal have remained open even as the country looks to cut emissions, and overcapacity given that these SOEs provide local employment, and benefit local economies through their production; CSR and reducing emissions comes second to the need for continued employment, and economic growth given the priorities of central government (Shen and Chen, 2017).

Governments tend to be more opaque with their operations. Saudi Arabia is one notable example here and discussed by Niblock (2004) and Cooper (2012). The state controls

multiple industries within Saudi Arabia, the main one being the oil sector, but also dominates businesses within finance, cement, mining and so on. Many of these businesses generate significant negative externalities onto the environment, the main source being oil. However, at the same time, these industries generate significant income for the state that allows them to continue with their generous incentives to locals, and investment plans. As discussed in Cooper (2012), the Saudi monarchy remains in place through their generous spending on the state, employing local people while also providing subsidized electricity, water etc., which all ensure a high standard of living for nationals. If this was ended, there are risks to the longevity of the Saudi ruling class. The importance of this is that to maintain their longevity, the ruling class, and so the government, must keep their state-owned businesses running. CSR initiatives focused on renewable energy, with electric vehicles both threatening the longevity of revenue for the Saudi government. So, according to Ali (2009), the Saudi state may be less focused on CSR initiatives domestically given the negative impact that such would have on their major businesses, and major generators of state revenue.

However, engagement may differ within private businesses in Saudi Arabia. On one hand there are the Multinational Enterprises (MNE) present in the country such as Starbucks, Hilton etc., that would all follow their global CSR policies, policies which may have been designed, and first implemented within the US/ UK. The policies in these markets are more advanced as business managers have greater information on sustainability, and environmental degradation, leading them to demand greater changes to business operations. For an MNE like Hilton, their CSR policies need to be implemented throughout the whole operations to maintain their brand image and reputation. On the other hand, there may be private Saudi businesses started by entrepreneurs who are focused on instilling concepts

within the business world (Burton, 2016). Littlewood and Holt (2018) indicate that these entrepreneurs may be those focused on CSR, seeking to offer a more organic product, or one with less emissions and so on. This is an important concept as consumers become more aware over CSR and over the issues facing the world related to pollution, waste, and emissions among others. As these consumers become more informed over the issues, they seek to bring about change, which creates demand for products/ services directly linked with CSR.

Mandurah et al. (2012, p. 1) focused on Saudi Arabian businesses and concluded *“Results indicate that there is a reasonable level of CSR awareness as well as a moderately positive attitude toward the concept. However, most CSR activities in Saudi Arabia seem to focus on the local communities in which these firms operate.”* This conclusion is important as it shows that while there is awareness in Saudi businesses; the majority of initiatives are focused on local communities, linking with Hvidt (2018) who sees the main aim of the state to appease local nationals. The researchers here noted little attention is placed by Saudi management on global CSR issues such as pollution and waste. This is interesting to note when the official data on carbon emissions shows that while Saudi Arabia may not be a larger emitter when it comes the top figure, it is the largest emitter per capita at 19.53 metric tonnes (2014 data), compared with the US at 16.49, China at 7.54 and the UK at 6.50 (World Bank, 2018).

3.3 CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE (CSR D)

CSR D refers to Corporate Social Responsibility Disclosure, which can be defined as the process of providing information about interactions between to the company and the environment, employees, society and consumer issues (Dahlsrud, 2008). Businesses report financial and non-financial metrics in the social and environmental context. CSR D has been

referred to in earlier research from Moir (2001) showing that the concept has been around for several decades; however, there is still no consensus among researchers on CSR reporting. CSRD is linked with regulation, legal systems, and consumer demands that according to Ballou et al. (2006) differ between businesses, sectors and countries. Currently there is no global system for CSRD, and businesses largely take their own view on how much information to make publically available to stakeholders.

The need for CSR has increased as consumers, especially those within developed economies have become more concerned with sustainable development. Businesses have responded by becoming more engaged with initiatives to reduce waste, use more renewable energy and so on. However, involvement has been dependent on their own desires. Furthermore, even if businesses are involved in CSR initiatives, the ways they report such activities vary from business to business. These differences are also supported by a lack of oversight within the legal, and auditing process, meaning that there is no set standard to follow for businesses.

In recent years, business responsibilities towards society have increased immensely, meaning there is now more data to report. Brammer et al. (2012), indicate that the development of CSRD can be explained by understanding Institutional Theory, a theory which seeks to consider the processes by which schemes, rules, norms and standards all become engraved within society, and over time generate guidelines for social behaviour. The word 'institution' should not be constrained to government agencies, or businesses. Popular definitions suggest that 'Institutions' are social structures that have attained a high degree of resilience; they are trusted, which means that they stand the test of time. These institutions can exist locally, nationally or internationally and may be transmitted through various communication channels or through carriers such as religious symbols and routines, among others. As these

become embedded into society, it becomes an expectation, a normal process. Fernando and Lawrence (2014) see this within CSRD reporting as customers demand certain information from businesses, which in turn prompts others to follow suit, creating a norm within the industry in question. However, the power and direction of these institutions will differ from country to country.

Grayson and Hodges (2017) note that even businesses in developed economies still have issues with CSRD as it is difficult to find an appropriate metric to showcase both social and environmental factors. Furthermore, it becomes even difficult to consider a metric which can be harmonised throughout the country and used for comparisons. Robertson and Samy (2015) discuss how the FTSE brought in mandatory reporting for listed businesses, which required them to disclose their carbon emissions with an intensity metric. The level of carbon emissions is an absolute indicator and can be compared between businesses. However, this is not an effective comparison as it fails to consider multiple variables such as size, industry, and operations among others. For instance, IAG (owner of British Airways) would be expected to emit more carbon than Marks and Spencer given the line of business. To account for this, the intensity measure was also included, meaning businesses must break down their total emissions into a unit, be it per £ of revenue, or per tonne of production depending on their preference. This highlights the difficulty of getting CSRD harmonisation through businesses, although the intensity factor presents a way for comparisons to be made between peers. Similarly, Gov UK (2018) mention another FTSE regulation in regards to CSRD related to the gender pay gap. It requires businesses to report the pay gap.

CSRD is the process of communicating the overall social and environmental impacts resulting from the economic activities of the company (Gray et al., 1987). Therefore,

disclosure involves extending the transparency and accountability of companies to the society beyond the basic traditional role of providing a financial report to the shareholders. It is mostly a voluntary disclosure of information by the company which may be in financial or non-financial terms (Mathews, 1997). All these disclosure developments have been necessitated by the companies adopting more ethical ways and disclosing information on their economic activities to attain long-term goals. This information consists of four categories, namely: consumer, community, environmental and employee related information (Van der Laan Smith, 2005). While most CSRD is voluntary, there are regulatory requirements for some businesses, especially those listed on stock exchanges.

From the viewpoint of traditional neoclassic Profit Maximisation Theory, disclosures are considered costly and, therefore, firms must only disclose information voluntarily if the overall benefits outweigh the costs (Verrecchia, 1983). Such benefits include building a better relationship with socially responsible investors (Merton, 1987) and the society in general. The overall regulatory requirement of CSRD is that companies must be responsible for their economic inputs and how they affect society and environment. Moreover, the International Organization for Standardisation (ISO) issued ISO 2600 as the agreeable standard that provides direction to both public and private firms on social responsibility. The standard aimed at helping firms to manage their social responsibilities that affect society and environment (Habbash, 2017b).

Saudi Arabia, which is the focus of this study, has several rules that regulate all listed companies. The Ministry of Commerce and Industry issued the Disclosure and Transparency Standard in 1985, which is one of the important elements of best practice of corporate governance. This standard requires that companies include the concept of disclosure and

transparency in their companies' article of associations and specify the ways to apply them to governing bodies and releasing information to all interested parties in the company (Al-habshan1, 2017). Therefore, this regulatory framework sets conditions for effective disclosure and corporate governance. It was strengthened by issuing of the Code of Corporate Governance in 2006, which addressed the rights of shareholders and the general assembly, disclosure and transparency, and the board of directors (Yaseen Al-Janadi, 2013). Although these frameworks have helped the listed companies to share information with the society, Al-Janadi (2013) show that state ownership had a negative impact on voluntary disclosure.

3.3.1 CSRD INDEX IN DEVELOPED ECONOMIES

Considering engagement, CSRD is higher in developed economies (*see* Husted et al., 2016). Largely this has been the result of stakeholder interest in CSR, prompting businesses to respond in order to maintain their reputation within competitive free markets. However, the process has also become formalized in some driven by regulation. For instance, the FTSE 100 in the UK is regulated for environmental reporting, with listed businesses needing to provide a figure for carbon emissions, along with an intensity factor where businesses may note the level of carbon emitted per £1 revenue, or by headcount etc., however it must be an efficiency figure which can be tacked and compared year on year. This shows how regulation can be placed on businesses to direct them within their CSRD. The benefit to such is that it also allows business managers to compare businesses, be it their own performance over several years, or their performance compared with peers. The main driver of this is accountability. It pushes businesses to not only provide this data publically, but also explain

such, and in many cases offer a strategy on how it will be improved over the coming years. Again, the regulation does not specify that reductions must be made, but reporting this data alone puts the business in a situation where it may seek to show an improvement to improve their perception, and reputation.

Fortanier et al. (2011) focused on the harmonization of CSR practices among global businesses. The initial finding was that the method in how the business presented their CSR was strongly influenced by the country of origin, and so those businesses which originated in the US all showed similarities irrespective of where the operations of their business was located, be it more manufacturing in China etc. The researchers found evidence that as these businesses look to adhere to stronger regulation, there is further harmonization as governments from Europe to the US seek to harmonize their own regulation alongside standards released by global agencies. Thus, Fortanier et al. (2011) imply that global standards and guidelines do not only increase the overall level of CSR reporting, but are also associated with a harmonization of CSR activities of firms from different countries, in turn reducing the role that domestic institutions (including legislation and societal concerns) play in shaping CSR practices.

Thompson and Ke (2012) focused on CSR reporting within UK property businesses. In this case there was a positive relationship between Return on Assets (ROA) and being 'green', suggesting that businesses that were more profitable were more likely to invest more into CSR. Return has a significantly positive coefficient with both indices, suggesting that the 'greener' companies outperform others in the stock market, which in turn suggested why CSRD disclosure was already above the regulated level, suggesting that businesses were going 'above and beyond' their statutory requirements. Bonilla-Priego et al. (2014) found the

opposite when it came to the cruise industry, noting how businesses in this sector were late adopters of CSRD. It was mentioned that businesses disclosing less information focus on soft, easy to mimic indicators, while the data which was disclosed focused more on management than on performance. Furthermore, it was also noted that only the largest business was making significant improvements in their CSRD; smaller operators remained focused on the minimum. However, when discussing this, it was noted that attention on the cruise industry and CSR was low, much lower than airlines, or construction. With this, there was potentially little to gain with cruise operators spending more on CSR, especially if such goes largely unnoticed by consumers. As mentioned by Laville and Smithers (2018), retailers in the UK have been vocal in showing voluntary initiatives designed to cut their plastic wastage, however the idea here would be that this disclosure would have numerous benefits for the business, from improving the reputation of the business, to positive PR, and the potential to charge a premium price for a more environmentally friendly product *if* the customer gains a higher perceived value from the product. Linking back to Bonilla-Priego et al. (2014), the question would be whether the same could be seen with CSRD within the cruise sector; if not it becomes easier to understand why a business may only look to report the minimum.

A large body of work has been developed in the airline sector. Airlines operate in a competitive environment, with CSR being a source of competitive advantage. With this, CSR contributes to the long-term value of an airline; this notion is consistent with the Friedmanesque view that airline *“executives may consider practicing socially responsible activities... because such practices appear to be accompanied with an increase in their companies’ value [over the long-term], which is the ultimate goal of any corporation”*, (Lee

and Park, 2010, p. 185). To Kuo et al. (2016), global airlines have increased their CSRD in a bid to not only improve their reputation with customers, but also to show governments that they are aware of the environmental issues being caused by the business model, and are actively seeking to reduce this. Kuo et al. (2016) surveyed several airlines, finding that many saw the main reader of their CSR reports being governments, and so airlines looked to increase the data presented to match the current regulatory environment, providing the government with data which showed the airline industry was actively seeking to become better ‘citizens’, which in turn may reduce the need for further regulation in the sector to force change.

De Grosbois (2016) identified that while hotel businesses in this instance look to conform in showing their commitment to CSR, in reporting metrics such as water usage etc., there are still large differences in the level of detail presented. Some hotel businesses provided business managers with their CSR data, while others went further and provided details over upcoming initiatives to further improve their *sustainability*. Some businesses had taken CSRD as an opportunity to devise future action plans, while others simply reported the data to meet regulations, or to keep up with peers.

Given heightened regulation in the UK, investment vehicles have developed to focus their capital primarily on sustainable businesses, which is another driver for businesses improving their own CSRD. As already mentioned, investors are becoming increasingly aware of sustainable investments, with institutional investors like the Norwegian Sovereign Fund already divesting from unethical businesses. Mackenzie et al. (2013) studied the FTSE4Good's impact on environmental management, sampling data from 1029 businesses located in 21 countries. The findings here demonstrated “*that engagement combined with the*

threat of expulsion from the FTSE4Good index doubles the probability that a firm failing to meet the environmental management criteria in 2002 would comply by 2005” (Mackenzie et al., 2013, p. 495). This higher compliance was observed until the end of the study in 2010, while it was also found that compliance is positively associated with low levels of concentrated ownership and with firms based in coordinated rather than liberal market economies. It could be summarized here then that businesses are more compliant (1) under a coordinated economy, while (2) when the ownership of the business is not concentrated in the hands of the few. To clarify, a coordinated economy relies on formal institutions to regulate the market and coordinate the relationship of businesses with suppliers, the government and other business managers (Mankiw, 2016). Examples of this economic system can be seen in Germany/ Japan where institutions such as trade unions still possess a high level of power within the economy, whereas more liberal markets such as the US and UK take a more ‘laissez faire’ approach, intervening as little as possible to ensure that free-market economics reign (Mankiw, 2016).

Linking back in with the discussion on media in the previous section, Illia et al. (2013) discusses how businesses use social media as an avenue to communicate their CSR initiatives to a cynical public. With businesses becoming more dynamic in general, social media is seen as a growing channel for communication in all aspects, including CSR. To Tench and Jones (2015: 290), social media is increasingly being used by activists and ‘hactivists’ to challenge corporate communication CSR messages and does so by highlighting instances and examples of corporate social irresponsibility. With this, businesses are responding with their own platforms on social media to challenge these examples and provide their own data. According to Ali et al. (2015), this means that businesses are reporting more CSR data on an

ad-hoc basis to communicate with business managers through social media, to build relationships and dispel any misleading statements which could damage the reputation of the business.

3.3.2 CSRD INDEX IN EMERGING ECONOMIES

The discussion above noted major differences in reporting CSR in developed economies. Unfortunately, the level and depth of reporting within developing economies is much less advanced. Barakat et al. (2015) focused on differences between Jordan, and Palestine. Prior to these findings, the researchers noted that both countries differed economically, with Jordan a relatively stable economy which a stronger legal system, while Palestine remains occupied by Israeli forces which created risks of war. This led businesses in Palestine to report little on CSR given other priorities; Jordan had a more developed CSRD reporting structure however this still lagged Western peers, while major differences could be seen between businesses based on their sector. Barakat et al. (2015: 1) summarized with *“Both countries enhance the same issues but, in relative terms, Palestinian firms present a greatest concern on issues related to human resources and commitment towards community.”* Given conflict in Palestine, businesses there were more focused on supporting their workers, as well as local communities through the hardship of living under conflict. Given an improved CSRD performance in Jordan, the research concluded that a positive relationship existed between CSRD and the legal system, corporate governance (e.g. board size and board audit committee), and the characteristics of the external auditor, similar to conclusions made by Barakat et al. (2015) when discussing developed economies.

Muttakin and Khan (2014) undertook their research in Bangladesh, using a checklist to rate the level of CSRD within each business compared with several other variables such as revenue, size, location, and sector among others. A multiple regression model was employed in the study to calculate the relationships. It was found that CSRD has significant, and positive relationships with the size of the business, within specific sectors, and within those businesses that are more focused on export-orientated demand. Ultimately, what could be suggested here is that Bangladeshi businesses are more likely to disclose their CSR when they are larger businesses that are linked into the global supply chain be that they are engaged with MNE's present in Europe or the US Muttakin and Khan (2014) mentioned the clothing sector as one industry which was becoming more receptive to CSRD, especially as pressure was being placed on their customers such as H&M to improve their own CSRD. It created a ripple effect throughout the supply-chain. Size was also an important factor given that as a business becomes larger, its impact on the environment, and local communities increase. With this, business managers naturally seek to understand more about the business, placing greater pressure on management to disclose their CSR data. Kansal et al. (2014) conducted an identical study within India finding near matching results. Corporate size and industry category were noted as two major determinants of CSRD, while corporate reputation was also positively linked. The researchers noted that businesses that were more responsive to CSRD usually had a greater reputation within the market, recognized by industry awards and social ratings.

Muttakin et al. (2015) undertook further work in Bangladesh comprised of data from 116 listed Bangladeshi non-financial businesses; with the data being taken between 2005 and 2009. The results supported earlier work in Bangladesh noting that larger businesses were

more likely to provide CSR disclosures to the market. Though the researchers also looked deeper into the relationship between CSRD and ownership/ management. It was concluded that female directorship actually had a negative impact on CSRD, while foreign directorship had a positive one. CSRD also decreases when the business had a greater family ownership, or when more females members were noted on the board. This could be linked back to Mackenzie et al. (2013) who noted that CSR compliance falls when ownership is more concentrated, which could be linked with family ownership.

3.4 IMPACT OF CSRD ON BUSINESS PERFORMANCE

Sustainability is the most critical issue faced by businesses in recent times (Carroll and Bucholtz, 2014), with business managers demanding more non-financial information from management to ensure they conform to increasing regulation, and tougher expectations from customers. World Business Council for Sustainable Development (2002: 1) defined Corporate Sustainability as - *“the commitment of business to contribute to sustainable economic development, and to work with employees, their families, the local community and society at large to improve their quality of life.”*

According to Hubbard et al. (2017), the number of investors who are seeking out Socially Responsible Investments (SRI) has been rapidly increasing. Fouche (2018) discussed how Norway's sovereign wealth fund, the largest in the world, was increasing moving investments out of businesses that were not socially responsible, recently targeting oil businesses. To accompany the growing movement towards SRI sustainability indexes have been constructed including the Dow Jones Sustainability Index. KPMG (2011) in its International Survey on Corporate Responsibility Reporting found that 95% of the 250 largest companies in the world

conduct CSRD, although this was heavily driven by those businesses located in Europe and the US. At the time it was noted that only 50% of businesses surveyed in the Asia-Pacific region carried out CSRD. However, according to White (2012) it was the Johannesburg Stock Exchange which was first to have mandated reporting of CSR, predating that of developed exchanges in the US/ Europe. Such action shows how business performance is becoming linked with that of CSR reporting.

This section now provides more clarity on the link with business performance, before splitting the discussion into developed, and developing economies.

There is a growing body of research that seeks to show a relationship between CSR and firm performance. The theory here is that increased engagement with CSR initiatives also leads to increased engagement between the business, and their customers leading to increased demand for their goods/ services. There is also the argument that a focus on CSR increases the value of the business and their products, allowing for a premium price to be charged on differentiation (McWilliams and Siegel, 2011), while there is also the idea that CSR measures aimed at reducing wastage in the supply-chain could lead to lower production costs which again benefits the business financially.

Mishra and Suar (2010) considered Indian businesses, collecting questionnaires from 150 CEOs in the country along with data related to CSR policies, and financial/ non-financial performance. At first the responses noted that there was a positive relationship between stock-listed businesses and CSR engagement, showing that those businesses who are publically listed, and so those who must publically report their information are more likely to be involved within improving their CSR. Mishra and Suar (2010, p. 1) also noted “a

favorable perception of managers towards CSR is found to be associated with increase in FP and NFP of firms.” Customers were seen to be more engaged with businesses which closely followed their ethical standpoint on issues such as pollution, while a focus on CSR also led to increased satisfaction among employees, which could then be linked with better productivity in the business. Arendt and Brettel (2010) surveyed 389 European businesses in their research into CSR and firm performance. Again a positive link was noted between the two, however the researchers here concluded, *“CSR triggers the corporate-image-building process and that its relationship to company success varies significantly based on company size, industry and marketing budget”* (Arendt and Brettel, 2010, p. 1). What was discussed here is that it is not just about undertaking CSR that links the business with better financial performance, but also how this is marketed. It is one part undertaking the CSR processes, however the real value for the business would be marketing this initiative to business managers (McWilliams and Siegel, 2011).

Linking in with Arendt and Brettel (2010), multiple examples can be noted whereby businesses have used a CSR initiative to market a new product. The Body Shop bases their premium position in the beauty market on their ethos concerning animal testing, and natural ingredients. They directly market their CSR initiatives to customers as it develops their brand, which in turn allows them to price their products at a premium compared to others’. Visser (2014) discusses how foods titled ‘organic’ or ‘fair-trade’ command a premium price in the marketplace linked with their CSR initiatives.

Saeidi et al. (2015) focused their research into competitive advantage, reputation, and customer satisfaction. The first point noted how businesses could gain a competitive advantage through involvement within CSR. These initiatives help differentiate a business

from others in a crowded marketplace, giving the product an added value as long as this value is shared by the consumer. This can be linked with the Body Shop above; they obtain a premium price for their products as their customers share their ethos, and so are willing to pay a higher price. Going back to Saeidi et al. (2015), this also links in with customer satisfaction.

The final point mentioned in Saeidi et al. (2015) was reputation. Reputation is important for the business, and as suggested in Bergh et al. (2010) is positively linked with revenue generation, market share, and financial performance of the business. A theory to mention here is the 'Agency Theory', which is based on the principal-agent relationship between management within the business and their owners. This theory has gained significant coverage lately given several corporate governance issues which have suggested that there is a conflict of interest between management and owners, and that in some cases there is asymmetric information. In the absence of adequate public disclosure by companies, the amount of risk perceived by investors rises significantly (de Klerk and de Villiers, 2012). If the risk associated with the business increases, then investors will demand a higher return. So, there is a link developed here which suggests that sustainability reporting reduces information asymmetry between management and owners, which in turn reduces and risk perceived by investors, increases market efficiency, and reducing cost of capital to firm (Dhaliwal et al., 2011; Warren and Thomsen, 2012). Linking in with this theory though is the ownership of the business, which is changeable between markets. Developed markets are more developed within their financial systems, making it easier for businesses to raise capital through equity markets. By doing this, the ownership of the business is made available publicly.

3.4.1 EVIDENCE FROM DEVELOPED ECONOMIES

Sun and Stuebs (2013) focused on the chemical industry in the US, using an analytical model to study the relationship between CSR and firm productivity. The results of their regression model pointed to a significant positive impact between CSR initiatives and future productivity with these US chemical businesses. The reasoning behind such could be two-fold. The first reason would be that greater engagement within CSR led to improve employee motivation, which in turn boosted their happiness, and productivity within the business. The second is that increased engagement within CSR improved the reputation of the business, in turn creating higher demand for their products, and so leading to higher productivity as the business increased output. Forte (2013, p. 1), who also studied the US agreed, noting *“It is not enough for companies to generate a profit. U.S. citizens expect them to generate a profit and conduct themselves in an ethical and socially responsible manner.”* CSR has now become an expectation from consumers to businesses, and with such business must undertake CSR to maintain their reputation, and in turn maintain, or grow, their financial performance. Lee and Shin (2010) presented a study on the link between reputation and financial performance, citing CSR as one driver of reputation. Their study, based on data between 2001 and 2005, conducted multiple regression for 230 businesses within the US. The results noted that corporate reputation has a significant, and positive relationship with financial performance. Added to Lii and Lee (2012), the link between reputation and CSR becomes apparent. The positive association between social responsibility and firm performance appeared to be partially supported because it showed significant impact on market-based performance, but not on accounting-based performance.

The relationship between CSR and financial performance within businesses is dependent on the expectations of business managers, mainly customers. For instance, CSR within the oil industry may be less important to a consumer of petrol, as opposed to CSR within the food industry. The idea here is that the consumer may see added value in food which has been produced in an ethical way, and so be willing to pay a premium price. However, for petrol, a largely homogenous product, consumers may have little concern for CSR. This concept could also be applied to different countries, with the apparent value of CSR dependent on multiple variables, such as the sector in which the business operates, and the concerns of domestic business managers. Margolis and Walsh (2003) evaluated the findings of 127 published studies between 1972 and 2002, a large percentage which focused on developed markets. Out of the 127, 109 studies treated sustainability performance as an independent variable. Of this, 52 showed a positive relationship, while 7 showed a negative, and 28 concluded on no-relationship. 20 reports also concluded on a 'mixed' result, showing how difficult it is to gain a consensus. Orlitzky et al. (2003) conducted a similar study, analysing the results from 52 previous empirical studies. It was found that most studies here showed a positive correlation, with the relationship being bi-directional, being that as a business saw their performance improve they would begin to disclose more to the market.

Cormier and Magnan (2007) showed though that some businesses may be hesitant to report CSRD metrics given that such could be used against them. This was also discussed in later work from Crane et al. (2016), who noted how businesses are wary of releasing more CSR information to the market over fears of public backlashes, especially if their figures are worse than peers, or worse than the market may expect. Interestingly, Visser (2014) noted that while sustainability is the new buzzword for many business managers, their current understanding

of the resources, and processes needed to make their demanded goods is low. This means that they may be shocked when they see the true cost of their demand from food supply-chains to electronics, and clothing etc. Connell and Kozar (2014), focusing on the clothing market, noted how consumers were unaware of the true usage of water, and other resources needed to make clothing, which in turn make fast-fashion damaging to the environment. Detre and Gunderson (2011) focused specifically on agri-businesses, finding that their share prices reacted negatively and significantly when they joined the Dow Jones Stock Index (DJSI). The main reason behind such was that investors perceived joining the sustainability index would lead to higher costs for the business. Lopez et al. (2007) also conducted research which concluded with a negative relationship between sustainability practices and business performance, however this was caveated with this relationship only being seen in the short-term. Lopez et al. (2007) noted that a limitation of their work was the timing of the study, suggesting that a longer-term study was needed to see if the weaker performance in the short-term was reversed in the long-term. This would appear plausible given reading from Touboulie and Walker (2015), (a) in the long-term businesses can change their supply-chains to meet new demands, i.e. *reducing packaging*, which should allow for costs to be minimized; (b) businesses can market their CSR initiatives to business managers to differentiate their products from competition, improving demand which could lead to economics of scale, and (c) in some cases businesses can use CSR initiatives to charge a premium price for their products given that consumers gain a higher value from them. Linking in with Lopez et al. (2007), Adams et al. (2012) studied the US market, and found that DJSI membership had no ‘statistically significant’ impact on the financial performance of businesses in the short-term,

but again caveating that this relationship may change within the long-term as businesses and consumers alike had more time to *adjust*.

Reading the above, research is skewed to the positive side, however there are several researchers who show a mixed, or no relationship. Humphrey et al. (2012) notes that there is no difference in financial performance (monthly portfolio returns) of businesses with high or low ESG rankings, referring to Environmental, Social and Governance. Although, high rated firms are consistently larger in size which could be a limitation to the research given that larger businesses may have a better financial performance when measured with metrics such as profitability. Thus, stocks with good ESG ratings are likely to be larger, more liquid, easier to trade, and hence more desirable for investors, meaning that the results are being skewed. Brammer et al. (2006) also focused on the UK, finding that businesses with a higher social performance achieved lower stock returns. Environmental and community indicators are negatively correlated with returns, while the employment indicator is weakly positively related. This would be expected though as any improvement in the employment indicator would seem to positively link with employee satisfaction, which in turn would link with productivity. Similar work was also undertaken in the US/ UK, using data between 2005 and 2009 to conclude that the only segment of CSR to see a positive relationship with financial performance was the 'Diversity' index. However, again this is linked with the employees, showing that a greater focus on the employees will result in better financial performance.

Expanding work over European markets, Van de Velde et al.'s (2005) results indicated that there was a positive link between high sustainability-rated portfolios and better average monthly portfolio returns, but not to a significant extent. Ziegler et al. (2002) also studied Europe, concluding that the sustainable behaviour of management neither improves nor

decreases shareholder value. While the researchers here did note a positive impact between environment performance and shareholder value, they saw a negative relationship with social performance. In the US Manescu (2011, p. 95) concludes *“Aggregate ESG Score has no significant effect on stock returns over test period from 1991-2006. Corporate governance, diversity, and environment scores have no significant effects; while Community relations have positive effect on risk-adjusted stock returns.”*

3.4.2 EVIDENCE FROM EMERGING ECONOMIES

Rather than using an empirical methodology, Ali et al. (2010) interviewed working professionals in Pakistan. The idea here was to understand whether CSR increased employee commitment, and productivity. After questioning 371 workers, the results showed a positive relationship between CSR actions and employee commitment. When employees were more committed to the business, they performed better, which in turn increased business performance. However, Slack (2012: 179), who focused on the resource extractive sector, discussed that while *“extractive industries often state their commitment to “corporate social responsibility” principles, but their actual implementation of these principles, particularly in developing countries, is questionable.”* This is topical given the recent 2019 dam burst in Brazil, a dam which was maintained by Vale to support local iron ore operations. This came just two years after a similar disaster in Brazil involving Vale which caused significant damage, and a loss of human life. Slack (2012) specifically mentions several mines, including the Marlin gold mine in Guatemala, which contradicts itself between what it presents to business managers, and what is ‘actually’ done within the business. The title of this research ‘Mission Impossible?’ shows one of the thoughts of Slack (2012), being that while it is easy

for businesses to announce new CSR measures to conform with regulation, and stakeholder demands, it becomes much harder to turn this into reality when CSR is not engraved within the business model. Hilson (2012) follows a similar agenda to Slack (2012) in focuses on the resource sector in developing markets. However, Hilson (2012) appears to be more positive, noting how businesses are actively seeking to improve their CSR reporting to business managers.

In this section there have been those researchers showing a positive relationship, and those showing a negative. However, Kesto (2017), who applied an econometric model within the Ethiopian banking sector concluded no relationship between the financial contribution for CSR activities and CFP at 1% significance level. The researcher justified their result by noting a lack of consumer awareness/ or care within the banking sector for CSR activities, and so there was no link between customer loyalty, and CSR within the Ethiopian banking sector.

Although, Idemudia (2011) argues that CSR research aimed at developing economies is flawed given criticism that the mainstream CSR agenda was largely driven by the concerns of Western companies, meaning that the definition itself tends to be insensitive to local priorities. Furthermore, it means that researchers who proclaim that CSR is not as active in developing countries may simply be misunderstood as they do not consider the local initiatives in place to alleviate domestic issues. Jamali and Sidani (2011) undertook a study titled ‘Is CSR Counterproductive in Developing Countries: The Unheard Voices of Change’, as the authors here looked to dispel the notion that acceleration of CSR would improve growth prospects in the developing world, a relationship which is cited by the World Bank as well as other development agencies. The argument here is that these development agencies

are largely Western-based, and influenced, meaning that this idea of CSR and greater economic growth is not always relevant within the developing world. While it could be seen in the developed world through the expansion of new sectors dedicated to recycling, or renewable energy, in the developing world, these developments could add increased costs onto business, dampening output.

In the Saudi Arabian context, Habbash and Haddad (2019) found that CSR activities played a statistically significant and positive role in the earnings management of Saudi firms. The concept of earnings management implies manipulations of accounting earnings by business managers, and such manipulations are not necessarily illegal as accounting standards allow for some flexibility. The researchers used discretionary accruals as a proxy for earnings management. Similar to this study, Habbash and Haddad (2019) constructed a CSR index based on the information from annual reports but linked them to discretionary accruals instead of profitability and market performance measures. Similar to this research, they used panel regression methods.

Habbash (2017a) used a similar method of regression analysis to study the relationship between CSR disclosure and financial performance rather than earnings management in the Saudi context. In contrast to this thesis, Habbash (2017a) used an older period from 2007 to 2011 and a smaller sample. Moreover, they did not use as much triangulation of sources and methods as done in this thesis. Their results confirm that CSR disclosure was positively associated with financial performance measured by accounting variables such as ROA. In a different study Habbash (2017b) attempted to investigate the endogeneity issue in the relationship between CSR disclosure and performance and therefore they covered the potential determinants of CSR, which included corporate governance, ownership and

financial variables. Financial performance was not found to be statistically affecting CSR disclosure, which confirmed the unidirectional causality implying that in this relationship CSRD should be affecting performance rather than vice versa.

Al-Malkawi and Javaid (2018) extended the research into relationship between CSR disclosure and financial performance by adopting the Generalised Method of Moments (GMM) instead of the previously used pooled OLS methods. While this method could provide more accurate estimates and include instrumental variables to address potential endogeneity problems, Al-Malkawi and Javaid (2018) failed to consider an aggregate level of CSRD and focused on Zakat only, which is not a comprehensive measure. Thus, even though they found a positive relationship between CSRD and financial performance, there remains a gap in the research field as they covered only one aspect of CSRD, namely: Zakat. Moreover, the previous studies that attempted to construct aggregate measures of CSRD such as Habbash (2017a; 2017b) still left many gaps in this area. The gaps include a lack of evidence on the more recent period after the year 2011 and a lack of triangulation by sources and methods that would improve reliability and validity of findings. These gaps are addressed in this thesis.

3.5 CONCLUSION

The perceptions of CSR in each country largely depend on their economic situation and the demands of consumers, institutions and the government. Businesses respond by meeting these demands expecting that stakeholder satisfaction will be reflected in better financial performance. In some countries, CSRD is also a requirement for listed companies. However, CSR can be perceived differently in each country. Developed economies tend to be more

focused on global issues such as climate change, while developing countries remain fixated on domestic issues.

This difference in understanding will then impact on how CSR is disclosed and undertaken in each country. Of course, there are overarching issues which are global in nature including climate change, and worker exploitation, among others, however the priority of these to a stakeholder in Russia may completely differ from that of someone in the UK. There is a growing body of work being completed into how CSR is influenced by the media, especially in social media (*see* Kesavan et al., 2013; Lyon and Montgomery, 2013). Social media presents an avenue to educate, and inform, but also to manipulate and empower. From a CSR perspective, Lyon and Montgomery (2013) are positive on social media, noting how platforms such as Twitter reduce the number of incidents related to ‘Corporate Greenwashing’, a process when a business will make misleading claims about their products/services to appear more environmentally friendly. Cahan et al., (2015, p. 409) also weigh into the discussion, understanding how CSR impacts on media coverage. Unsurprisingly, the researchers here conclude that businesses more engaged with CSR are reported on more favourably in the media, which in turn can be linked with higher reputations, and a higher corporate valuation – concluding “*Our results are consistent with the media slanting their reporting in favor of good performing CSR firms. Overall, we contribute to the literature by showing that firms can influence their media coverage through a relatively subtle channel, CSR performance.*” Kent and Taylor (2016, p. 60) present a paper which emphasizes the need to change the corporate-consumer relationship from *Homo Economicus* to *Homo Dialogicus*. The priority has shifted in a move to build ethical relationships between businesses and the public, with social media seen as the most viable communication channel.

But social media does have a major flaw is that it empowers all users to promote their own views. To Kitzmann and Beech (2011), this is largely positive factor which promotes free-speech, however linked with Paniagua and Sapena (2014), there is the potential for misleading statements, and fake news to develop. In some cases, the reach of social media allows these misleading statements to become fact for many consumers, in turn determining how they feel about CSR.

The review of literature on CSRD has revealed that while businesses are increasing their CSRD, there are still significant differences between countries, and business sectors. Differences in CSRD can be explained by differences in the needs of local business managers. As mentioned, developed economies are seeing an increase in reporting disclosure, with businesses listed on the FTSE for instance regulated to provide data related to their carbon emissions, while further regulation is now in place to disclosure the gender 'pay-gap' (Gov UK, 2018). Businesses are regulated to meet this, however Crane et al. (2016) also discusses how many have gone beyond this to add more reporting, with businesses such as British Airways having standalone 'Sustainability Report's released to the market alongside their financial reports. The aim is to monetarize CSRD, using this disclosure to benefit this businesses reputation, which in turn could lead to increased demand. The differences seem between CSRD in different business sectors could then be explained by a difference in opportunities related to CSR. The research presented on CSRD in airlines is largely positive as airlines have been under scrutiny from business managers, allowing for significant reputation gains from being more involved into CSR initiatives to reduce emissions. It also helps that reducing fuel consumption is not just an environmental 'win' for airlines, but also a financial one, so being more environmentally friendly be positively linked

with financial performance. This may not be the case with all industries. Bonilla-Priego et al. (2014) noted the cruising sector to be one industry behind in their CSRD, however this could be linked with a lack of scrutiny from business managers over their link to CSR issues.

Bashtovaya (2014) presented an interesting comparison between CSR reporting in the US and that in Russia. It was noted that while CSR reporting was present in both, it differed in substance. Russian companies reported more extensively on local CSR issues which were related more to their customers, and employees. However, US businesses were more likely to report on global concerns such as carbon emissions which seemed to be omitted by Russian businesses. There could be several explanations for this. The first could be that consumers within developing economies are more concerned with improving their local environment as opposed to aiding global effort, while in Russia it could also be noted that being such a large producer of crude oil, businesses may purposely omit an reference to reducing carbon emissions given that this would harm Russian energy businesses. Faisal et al. (2012) studies corporate reporting from 24 countries, and while it was concluded that there was no significant relationship between CSRD and variable such as firm performance, it was noted that businesses with a larger size, and those who are in high-profile industries tended to be better, and more detailed within the CSRD. Why this is important here is that it showcases that developed/ developing economies is not the only split which can be made to showcase differences in CSR disclosure. Larger, more high-profile businesses in China may be better at CSRD than smaller businesses in the US given their relative impact on CSR issues (*see* Porter et al., 2011; Beckmann et al., 2014). This is important to mention as it is sometimes not only the location of the business which impacts their CSRD but also the relative impact the business has on the environment, on water management among other issues. The higher

the impact the more pressure on the business to reveal the size of the issue, and what actions are being taken by them to mitigate (Crane et al., 2016).

The literature review has also shown that there is a growing body of work on CSR disclosure and how it links with performance. While the chapter provided evidence from both developed and developing countries, the majority of studies in the context of the developing world were focused on India and Bangladesh. Empirical research in the context of the Middle East is lacking, and there also appears to be little work done in Saudi Arabia. The majority of research done within developed markets showcases a positive relationship between business value and CSR engagement.

Saudi Arabia is interesting as the government announces, 'Vision 2030', a plan to reduce Saudi Arabia's reliance on hydrocarbons, reducing their reliance on the oil sector for economic performance (Alshuwaikhat and Mohammed, 2017). Among the plans are goals to improve tourism, hospitality, and the renewables sector in the economy which has largely been driven by the global need for crude oil. With Saudi Arabia having the highest carbon emissions per capita (World Bank, 2018), the current state shows little concern over CSR. Although as mentioned, CSR is a broad concept and not limited to carbon emissions (see Carroll and Buchholtz, 2014; Visser, 2014; Crane and Matten, 2016). There is the opportunity to expand the body of work done on Saudi Arabia and gauge the views of local businesses on CSR. It is important to understand whether businesses in Saudi Arabia seek to become more engaged within CSR to improve their reputation not only in the home market but also on the international arena. There is also the need to understand the demands of Saudi consumers and see whether they are pressurising businesses to change and become 'better citizens'.

Reading through work undertaken, it becomes apparent that there is a lack of work in the Middle East, with work in developing economies largely centred on Asian economies such as India/ Pakistan. It also becomes apparent that CSR differs greatly between countries, both in terms of definition, and in terms of actions. While there has been growing regulation within developed economies, it could be argued that developing economies have in general looked to businesses to lead the development of 'sustainability' through governing their own actions. However, with this, businesses will choose to focus on building their own reputation to essentially profit from CSR by increasing demand for their products/ services. Businesses perceive CSR differently, with some taking a purely local view, while others, mainly in developed economies, take a global view to issues such as carbon emissions, plastic waste etc. Added into this is the role that the media sector, and social media play in determining CSR, and in determining the issues businesses should be focused on.

With this, reporting differs. Recent research has noted that in developed markets, CSRD has been expanding rapidly as business managers demand more information. Largely businesses have responded to these demands positively, also helped given new regulation on indices such as the FTSE 100 which makes some environmental reporting mandatory for listed businesses. By reporting this information publicly, there is an increased interest in comparisons, and future strategy. This has increased leading some businesses to voluntarily report more than asked, including sustainability reports. However, when it comes to linking the study into Saudi Arabia, the researcher must be aware of the business environment, and the role that the state plays within the country. In this case it may be seen that the state has other priorities for their state-owned businesses, from providing local employment to become

competitive on a global basis. All of these factors impact on the regulation, and expectation placed on these businesses, and in turn how they respond with their disclosure.

The final section considered the link between CSR reporting and business performance. Again, it is clear to see that researchers have favoured developed markets, mainly due to the ease of collecting financial data from publicly listed businesses in the US/ UK and Europe. Such a comparison becomes harder in developing markets where the market is geared more towards private, and state-owned businesses. There are also risks over the reliability of the financial data being provided, especially from businesses not listed, and regulated on financial markets such as the FTSE. Furthermore, it also becomes clear that the impact on financial performance will be linked with how the customer reacts to greater CSR engagement. Cases have been mentioned whereby consumers are willing to pay a premium price for a product which is called 'Fairtrade', however this may not be the case in other sectors. Like marketing, some CSR activities could be viewed as a sunk cost, with the business hoping to recover this revenue through increased sales. But, the extent to which this would happen would be dependent on how customers, be it B2B or B2C respond, and value CSR initiatives versus other factors such as price, availability.

The review presented supports the need to consider CSR further within Saudi Arabia especially when added with the 'Vision 2030' context above. Although, greater focus is needed as the researcher now understands the differences which can be seen between CSR in different business segments. This may be focus in the research into a specific sector, or if Saudi Arabia as a whole is studied, will mean that a discussion is needed into how results

differed between sectors in the economy. Being largely ‘Westernized’ there is also the need for more work into CSR from the perspective of developing economies. The idea of CSR is now focused on global issues such as carbon emissions, waste, food security etc., all built into this circular economy. Localized initiatives are overlooked, while there is also less of a focus on issues which primarily impact the developing world. For instance, a manufacturing business setting up within Saudi Arabia could create several negative externalities related to emissions, waste *etc.*, however the addition of a local employer could help alleviate poverty in the local area. Given the definitions initially provided on CSR, it could be considered that the poverty alleviation would be overlooked from a CSR perspective, with the focus being a predetermined list of issues which have been identified, and targeted by the larger MNEs.

Chapter 4: Research Methodology and Data Collection

4.1 INTRODUCTION

The principal purpose of this study is to assess CSRD in Saudi Arabia and examine the effects of CSR on the financial performance of firms listed on the Saudi Stock Exchange (Tadawul). In particular, it aims to investigate: (1) the perceptions of business managers regarding the current practice of CSR in Saudi Arabia; (2) the extent of CSR disclosures by Tadawul-listed firms; and, (3) the relationship between the level of CSR disclosure and firms' financial performance in Saudi Arabia. In order to achieve the aim and objectives of the research, a mixed-method research design has been adopted, using the triangulation of information involving secondary data from annual reports and primary data from survey questionnaires and semi-structured interviews. In this context, previous literature related to the theoretical background that helps to understand how businesses perceive CSR and the status of CSR disclosure around the world, including Saudi Arabia, and the relationship between CSR disclosure and financial performances, was reviewed and the results presented in previous chapters.

This chapter provides a detailed description of the methodology adopted in the study. Section 4.2 discusses the philosophical underpinnings of the research, followed by the details of the research approach in Section 4.3. used to direct the collection and analysis of the data. Section 4.4 outlines the research strategy applied in the present study, followed by Section 4.5, which provides a detailed description and discussion of the research methodology this research is based on. Section 4.6 presents information regarding the sampling strategy used, followed by an explanation of the data collection instruments in Section 4.7. Furthermore, a brief

discussion of the data analysis techniques and econometric methods is provided in Section 4.8 and 4.9, respectively. The validity and reliability of the data collected is covered in Sections 4.10. In addition, the limitations and ethical considerations of the research are discussed in Section 4.11 and Section 4.12, before the chapter ends with concluding remarks in Section 4.13.

4.2 RESEARCH PHILOSOPHY

According to Crotty (1998), all research is based on four important facets: theoretical background, philosophical approach, methodology, and data collection methods. After discussing the CSR Pyramid, Triple Bottom Line, and Stakeholder Theory, and their links with firms' disclosure and performance in Chapter 2, this section provides a discussion of the philosophical underpinnings of the present research.

As one of the main objectives of the study is to assess the perceptions of CSR by business managers in Saudi Arabia, an interpretive research philosophy was applied in the study. This philosophy primarily assumes that in-depth understanding must be gained through a process of interpreting the information and data contained within social narrative accounts and through observed outcomes, as well as through the analysis of data (Denzin and Lincoln, 2000, p. 88). This means that any knowledge and understanding acquired through interpretive research can be conceptualised as primarily socially constructed, based on a given research situation and the factors at work in said situations (Berger and Luckman, 1967, p. 69).

In this study, data is needed to analyse the different stances of participants, their realities, knowledge, and views about CSR disclosure in Saudi Arabia and its impact on the performance of Saudi listed firms. Thus, an interpretive approach was deemed to be best

suited for this study as it gives the researcher an opportunity to interpret data with the acknowledgement and understanding that each participant's outlook could be different, thus enabling recognition of a wide range of experiences and interpretations of the same topic, including opinions from a variety of social actors, namely: business managers, who have been either involved in or influenced by CSR practices in Saudi Arabia.

On the other hand, the philosophy of positivism, which is generally seen as the primary alternative philosophical approach compared to interpretivism, is based on the view that knowledge and understanding must be objectively established through direct and rigorous scientific analysis and inquiry (Carson et al., 2001, p. 113). This is due to the positivist position that knowledge and reality are absolute rather than socially constructed, and that only through absolute scientific techniques and analyses can the underlying truth of a given situation be ascertained. This is of limited relevance to the case of CSR disclosure and associated investor perspectives in the specific case of Saudi Arabia, where the literature has shown that social responsibility is largely a socially constructed concept. In the context of this research, the goal of the interpretivist stance to understand the meaning of reality as perceived by others is more valid than the goal of the positivist stance to attempt to determine absolute and general patterns that define outcomes (Neuman, 2003, p. 118).

Thus, in the present research, an interpretivist perspective has been applied to the analysis of individual perspectives and views around CSR disclosures, while at the same time utilising some level of positivism to attempt to link this data to firm performance, which is a more absolute concept based on defined rules (Myers, 2009, p. 50).

4.3 RESEARCH APPROACH

The next phase of the research is to determine the research approach. In this regard, the inductive approach is generally seen as the most aligned with the use of interpretivism, as it focuses on creating new theory and insight around a given research topic area (Saunders et al., 2012, p.125). In particular, an inductive approach allows for the generation of observations based on a given situation, enabling conclusions to be formulated at the end of the research, thus avoiding the need to apply initial models and hypotheses, which can force a general view onto a specific situation (Goddard and Melville, 2004, p. 111). The inductive approach was considered to be most suitable for the study. This is consistent with the view that it allows for a more open approach to the analysis of CSR perspectives in Saudi Arabia and their influence on the perspectives of investors regarding the value of Saudi companies. It also allows for a research process that is open to new information and knowledge, and thus supports specific understanding.

By contrast, a deductive approach to research aims to create knowledge by “developing a hypothesis based on existing theory, and then designing a research strategy to test the hypothesis” (Wilson, 2014, p. 7). Such an approach is generally more mathematical in nature, based on the use of statistics and other analysis techniques to test hypotheses and deduce from the results which hypothesis is supported and which is not. In general, inductive research focuses on qualitative data, which is gathered and analysed without excessive reliance on existing theory. In the context of this study, this meant insight could be provided into the underlying views and perspectives of individuals associated with the Saudi stock market, generating further insight as a result. However, the work of this dissertation also relies on the analysis of the links between perceptions and performance, which is a more

direct and quantifiable link best explored using quantitative methods, in line with the role of positivism within the overall research methodology. This supports the use of a deductive approach within the research process. As such, the present research uses an abductive approach, combining both induction and deduction to generate maximum value and insight from investigating the research topic and answering the research questions (Saunders et al., 2009).

4.4 RESEARCH STRATEGY

There are a wide number of research strategies that can be applied to gather information related to the study. Some of the most relevant in the case of financial analyses are surveys, case studies, and action research. Existing studies show that survey strategy is the most useful when carrying out broad analyses of significant populations or market segments, where the researcher requires access to large and representative samples of data. As such, this strategy is particularly appropriate when a diverse sample of data must be collected in the most efficient manner, as it facilitates the collection of data at a distance thus reducing the burden on the researcher (Amaratunga, 2002, p. 19). However, the survey strategy can also be limited in its ability to offer a significant depth of data, which can result in a lack of consideration of specific contextual factors which may influence the underlying nature of the research subject (Kumar, 2019, p. 89). These issues can be overcome, to an extent, through the use of rich data collection techniques that incorporate broader sources of data.

In contrast to the survey strategy, other previous studies argue that a case study strategy represents a more-focused approach, being limited in scope and scale. In this sense, a case study is “a strategy for doing research which involves an empirical investigation of a

particular contemporary phenomenon within its real life context using multiple sources of evidence” (Robson, 2002, p.178). This means that a case study strategy can often provide higher levels of inductive and interpretive insight, due to the researcher being able to select the sources of evidence to be used based on what is judged as likely to provide maximum levels of insight. However, at the same time, this means case study research can be highly specific to the context of the particular organisation or case being analysed. In turn, this can create a significant issue of endogeneity in the data and the results, if the case cannot be shown to be fully reflective of the wider research environment (Kumar, 2019, p. 108). This is particularly an issue if the wider environment is significant and varying, where a limited number of specific cases may differ significantly from the rest of the population.

Finally, action research represents a highly focused and targeted research strategy. In this type of research, the researcher works directly with a single target organisation, focusing on the members of the organisation. In turn, this allows for the collection of a significant volume of highly focused data related to the situation facing the organisation. Such data provides a high level of insight into the specific context of the organisation, while the process of working with practitioners and members of the organisation enables the researcher to identify and solve specific problems and address important issues in the context of said organisation (Saunders et al., 2012, p. 134). However, while this process makes action research a valuable technique for generating deep insight into a specific organisation and its problems, it greatly limits the ability of the researcher to generate understanding on a more general level (Yin, 2009, p. 105).

In light of the above, for the present research it was decided to use a survey strategy to collect data from the broad context of the Saudi Arabian stock market and economy, thus achieving

a sufficient breadth of understanding around CSR disclosure in Saudi Arabia and its impact on the performance of Saudi listed firms.

4.5 RESEARCH METHODOLOGY

After determining the theoretical background and the philosophical approach to be applied, the researcher must choose which model (quantitative, qualitative, or mixed) should be adopted in his/her work, to achieve a rigorous research result. This study employed both quantitative and qualitative methods of data collection and analysis triangulating information sourced from secondary data obtained from annual reports and primary data collected from survey questionnaires and semi-structured interviews. This is intended to ensure the credibility of the information obtained which, in turn, would reduce social bias and justify the results (Johnson and Onwuegbuzie, 2004; Lockett et al., 2006). A brief explanation of these methods is necessary to explain why a mixed-methods research design was adopted in this study.

The qualitative research method is employed by researchers to analyse the meanings of human activities, such as human behaviours and products. In this type of research, human behaviours are observed or examined in natural settings (e.g. a specific culture, community or neighbourhood) through participant observation, individual or group interviews, questionnaires, and by employing a content analysis technique to categorise and analyse the meanings of those behaviours (Ambert et al., 1995).

On the other hand, quantitative methods provide clear procedures to guide an investigator in conducting a study and focusing on what people do or believe on a large scale, to describe a social structure. These methods employ a measurement instrument rather than rely on the

investigator to elicit data, and employ qualification as a basis for making inferences and determine the reliability of measurements. In addition, quantitative methods function to test hypotheses to confirm relationships (Chi, 1997; Fry, 1981; Sanders, 1982).

Although the mixed-method approach is a divergent process, it can nevertheless be used to both evaluate multiple data sources and decipher the information obtained (Johnson and Onwuegbuzie, 2004). Stevenson (2004) emphasises the point that, despite the differences in the processes involved in quantitative and qualitative methods, using them in tandem can provide more authoritative results. Johnson and Onwuegbuzie (2004) claim that mixed methodologies involving quantitative data can help interpret qualitative outcomes more clearly. Furthermore, Saunders et al. (2009) argue that to answer certain questions, it is not possible simply to provide minimal responses without undertaking thorough research of the subject under consideration; the inclusion of qualitative research processes satisfies this requirement.

As one of the main objectives of this research is to identify the perceptions of business managers regarding the current practice of CSR in Saudi Arabia, it was decided to conduct primary research using questionnaires delivered to business managers, followed by semi-structured face-to-face interviews with financial managers to gather specific data about CSR disclosure perceptions in Saudi Arabia. This has helped to reveal the different perspectives of participants, their realities, knowledge, and views about CSRD in Saudi Arabia. In light of the exploratory nature of the current study, a quantitative survey was used to explore the perceptions of business managers about current CSRD practice in Saudi Arabia. Prior studies, such as those by O'Dwyer (2003), Helm (2007), and Weber (2008) used similar methodologies to investigate business managers' perceptions. It was deemed that using two

different methods could help investigate and analyse the business managers' perceptions in more depth.

As stated earlier, this study also aims to investigate the level of CSRD in Saudi Arabia and the relationship between the CSRD and financial performance of Tadawul-listed companies in Saudi Arabia. To investigate the existence and nature of this relationship, secondary data was collected from annual reports of Saudi companies, which were used to determine the level of disclosures and financial performance. In order to recognise CSR practices in Saudi companies, a CSR checklist was developed. At the same time, an analysis of the published annual reports was carried out to determine the frequency of CSR practices. A dichotomous process was applied to develop a CSRD index based on several CSR dimensions, including product and brand aspects, community involvement, employee information, energy and environmental impact dimensions, which helped to capture the full context of CSRD. CSR disclosures were then analysed and examined using content analysis. The quantitative data from the firm's annual reports was used to model firm performance. However, there is no set quantitative metric that is used to measure CSR. Instead, qualitative data was measured and methodically abridged into a quantitative score or metric for CSR. This methodology can be labelled as a systematic approach to analysing qualitative data. According to Zikmund et al. (2013), an index-building approach is normally used to measure business outcomes where there is no availability of a specific single quantitative metric that could be used. It is, to a certain degree, susceptible to bias, given that the investigator will eventually select the data for evaluation, but this can be avoided through the use of a systematic and outlined approach to data collection and analysis (Zikmun et al., 2012).

4.6 POPULATION AND SAMPLE DESIGN

The literature on research methods suggest that effective data collection requires a valid sampling strategy, which will help the researcher to achieve their goals while ensuring the research reaches high levels of reliability and generalisability (Saunders et al., 2009, p. 156). Sampling thus plays a key role in determining how the required data is collected from the research population, which should be done in a way that is both representative of the population being studied, and, at the same time, sufficiently relevant to the needs of the study and of the researcher (Fiegen, 2010, p. 390). The core focus of the sampling for the present research was on ensuring access to the data while also ensuring the most relevant and valuable data could be collected. This required the use of a purposive sampling method to identify and focus research attention on the individuals who could provide the most valuable input to the research (Suri, 2011, p. 69). Thus, to investigate the perceptions of various groups of business managers regarding the current practice of CSR in Saudi Arabia, a sample of the most relevant business managers from the wider population was identified using a purposive sampling technique.

In addition, the study also demanded a sampling method that enabled the identification of the most important financial managers and investors in the Saudi stock market, so that they could be interviewed to gain insight into how they perceive the current practices of CSR in Saudi Arabia. Reid (1996) explained that, in contrast to random sampling, purposive samples do not necessarily represent large populations, but can be used when there is a lack of access to the complete sampling frame or population. Small, focused samples of respondents can provide important information within specific contexts and settings even if their responses cannot be applied to the wider population.

In this study, the random sampling technique could not be employed for two reasons. First, there is no available and complete list of all managers that could potentially be surveyed. Such a list would represent the sampling frame. Second, even if such a list was available, it was impossible to find contact details of all managers and ensure that each potential respondent has an equal probability of being selected. Naturally, the managers to whom easier access could be gained were a priority, which violated the random sampling technique and was more consistent with purposive sampling. To this end, representatives of 15 companies were asked to take part in a face-to-face semi-structured interview. A total of 11 officials accepted the invitation and completed the interviews for this research. Investors and managers were chosen from those private firms that were already involved in CSR projects and where CSR was a part of their strategic planning, and who had solid relationships with other business managers. The full list of questions for the interviewees is provided in Appendix. The duration of the interviews varied from approximately 30 to 60 minutes each. To investigate the level of CSRD in Saudi Arabia and the relationship between CSRD and firms' financial performance, a sample of the companies listed on Tadawul was taken. According to the Tadawul (2019), there are 199 listed firms in Saudi Arabia as of the end of 2019; however, the sample for the study consisted of 108 firms from 17 sectors for the period 2013-2017. In total, 540 annual reports were examined and analysed to collect the secondary data concerning CSR disclosures and corporate financial performance. These firms were purposely selected because of their voluntary CSR disclosure, as indicated by the Saudi Responsible Competitive Index (SRCI) report (Accountability.org.sa, 2014). This study has adopted the econometric model of panel data regression analysis. This period was chosen as it includes data examining the impact of CSRD on firm performance.

The table below presents the total number of companies listed on the Tadawul exchange, which was established in Saudi Arabia in 2008.

Table 2 Number of Listed Businesses on the Tadawul Exchange

Year	No. of Listed Companies
2013	160
2014	169
2015	171
2016	176
2017	179
2018	190
2019	199

Source: Tadawul (2019)

Tadawul is dominated by the large Saudi-focused businesses which in most cases have a significant market share of their respective industry. The importance of understanding this is that companies which are monopolies or close to being a monopoly tend to enjoy abnormal profits and exercise large power over buyers (Rode, 2012). Thus, these businesses may have fewer incentives for becoming more sustainable (Mankiw, 2016). The opposite scenario would be a highly competitive industry whereby buyers have significant power in the market to move between producers based on their own preference. In this case, a buyer who is more concerned about CSR issues such as the environment could force a reaction from businesses. Without meeting the changing needs of their customers, the business would lose revenue to competition, and over the long-term cease to be relevant.

The number of businesses listed on the Tadawul exchange has expanded in recent years as the exchange has been seen as a regional alternative to much larger capital markets in Europe.

The table below provides a breakdown of the non-financial businesses listed on Tadawul. Financial businesses comprise slightly less than a half of all companies on Tadawul, followed by ‘Materials’; which account for 33.3% of all listed companies.

Table 3 Breakdown of Non-Financial Companies Listed on Tadawul

No.	Industry	Frequency	Percent
1	Capital Goods	12	11.1%
3	Consumer Durables and Apparel	5	4.6%
4	Consumer Services	5	4.6%
5	Diversified Financials	4	3.7%
6	Energy	4	3.7%
7	Food and Beverages	10	9.3%
8	Food and Staples Retailing	2	1.9%
9	Health Care Equipment and Svc	6	5.6%
10	Materials	36	33.3%
11	Media	1	0.9%
12	Pharma, Biotech and Life Science	1	0.9%
13	Real Estate Management and Development	8	7.4%
14	Retailing	5	4.6%
15	Telecommunication Services	3	2.8%
16	Transportation	4	3.7%
17	Utilities	2	1.9%
	Total	108	

Source: Tadawul (2019)

Non-financial companies from these sectors have been used in the calculation of the CSR Index. The index was calculated based on the thematic analysis, whereby the researcher was focused on pinpointing specific items which could then be incorporated into four themes as shown below:

- Disclosure about Community Services (**10 items**)
- Disclosure about Product/ Service Responsibility (**5 items**)

- Disclosure about Employee Services (**18 items**)
- Environmental Responsibility (**11 items**)

If an item was found in the annual report of the business identified then it received a score of 1, with the potential for the business to receive multiple points the same item is mentioned several times. This score was then divided by the number of items found in each theme, e.g. 10 in the case of ‘Disclosure about Community Services’. The total score was calculated when all scores were added together and divided by 44 to reflect the total number of items. Following from the literature review, the initial expectation was that there would be little progress in CSRD between 2013 and 2017. This forms the basis of the hypothesis.

The sample of businesses is skewed towards the ‘Materials’ sector, followed by Capital Goods, and Food and Beverage. A skew was expected given the Saudi Arabian economy is not perfectly diversified. Pure financial services were removed from this analysis given how their financial results can be impacted by adjustments; however, the businesses from the ‘Diversified Financials’ sector were considered as these are conglomerate businesses which have operations in multiple sectors.

4.7 DATA COLLECTION METHODS

This study employed a mixed-method research design involving triangulation of secondary data from annual reports and primary data from survey questionnaires and semi-structured interviews. This section provides a detailed description of each data collection technique that was employed by the researcher to answer each of the three research questions posed in this study.

4.7.1. Research Question 1

What are the perceptions of business managers regarding the current practice of CSR in Saudi Arabia?

In order to answer the above question, primary research was conducted using two different methods: (1) questionnaires delivered to business managers and (2) semi-structured face-to-face interviews with financial managers. These two different methods allow for a more in-depth investigation and analysis of business managers' perceptions. In addition, detailed information on qualitative research methodologies can be gained from the data collection and analysis, which is why the mixed methodology process was used.

4.7.1.1 Survey Questionnaire

Due to the exploratory nature of the current study, a survey was used to explore the business managers' perceptions about current CSR practice in Saudi Arabia. Prior studies such as those by O'Dwyer (2003), Helm (2007), and Weber (2008) used similar methodologies to investigate business managers' perceptions. For this stage of the study, a self-administered survey, a technique of carrying out research by asking questions and keeping a record of responses collected, was used to collect data.

A questionnaire is technique for collecting information from a group of people, and is commonly used by social sciences researchers (Zigmund, 2003). The questionnaire consists of group of questions designed in a way intended to gather the most relevant information from respondents (Blanche *et al.*, 2006). According to Richardson (2005), a questionnaire is often used to collect data because it is "quick, simple and convenient for both students and teachers". According to Lavrakas (2008), surveys are carried out for the evaluation of characteristics of a sample population, and for hypothesis-testing. In this research, a

questionnaire survey was employed to study the perception of CSR practices by Saudi businesses.

The questionnaire used in the study consisted of closed-ended questions. The Likert scale was used to quantify the responses to the closed-ended questions regarding the current practice of CSR in Saudi Arabia (see Appendix I for the questionnaire). During the pilot study, it was noticed that the respondents preferred to receive the questionnaire in Arabic.

Therefore, the questionnaire was translated into Arabic, using a three-step approach:

1. Translate the questionnaire from English to Arabic;
2. Translate the Arabic version back to English;
3. Identify the meanings lost in the translation and rectify the issues.

Before distributing the questionnaires, a brief description of the rationale and motivation for the research along with the significance of respondents' contribution was given to the respondents in a cover letter (see Appendix II). To ensure the research was conducted in an ethical way, the confidentiality of the information and anonymity of the participants in both the survey and interviews was maintained and the respondents were assured that their identity would not be disclosed in any case.

While distributing the questionnaire, an attempt was made to approach all the firms listed on Tadawul since 2013. Tadawul research department directly posted the questionnaire to all the listed companies. The survey was conducted from January 2018 to June 2018. After every 30 days, a reminder was sent to the prospective respondents. By the deadline, 140 questionnaires were received; however, seven of these were partially completed and therefore they had to be rejected. Hence, the fully completed 133 responses were considered for

analysis. The respondents returned the completed questionnaire by post or email (scanned copies) directly to the Tadawul research department.

4.7.1.2 Semi-structured interviews

Interviews can be either structured or unstructured. Structured interviews are mainly considered ‘closed’ questionnaires whereas unstructured interviews involve ‘observation’ (Newton, 2010). By contrast, semi-structured interviews are viewed as a “managed verbal exchange”, which particularly depends on the effective communication skills of the interviewer (Ritchie and Lewis, 2003).

This study used semi-structured interviews to gain greater clarity on the perceptions of CSR and CSRD practices by business managers in Saudi Arabia. In addition to distributing questionnaires to the business managers, representatives of companies were invited to take part in a face-to-face semi-structured interview to triangulate the findings of the questionnaire. Overall, 11 respondents participated in the interviews. The use of this method helped to reveal the different stances of participants, their realities, knowledge, and views about CSR in Saudi Arabia. The data collected in this step was qualitative in nature; however, it helped to consolidate the findings of the survey and relate the findings to the realities on the ground and the previous literature (see Appendix I for the interview questions).

This method ensured that particular areas were covered by specific questions, while also providing an opportunity to ask unplanned questions resulting from the discussion in order to clarify related points. Bernard (1988) used the semi-structured interview method and highly recommends its use when there is only one opportunity to conduct an interview.

According to Ritchie and Lewis (2003), semi-structured interviews are suitable when depth of meaning is important. Various reasons informed the choice of semi-structured interviews for this research, including: the opportunity to produce a rich dataset; understanding of participants was vital to attain insight into their perceptions, beliefs, outlooks, and familiarity surrounding CSR; potential to focus on contextual and relational aspects, which were vital when trying to understand the perceptions of the business managers; and the data collected could be analysed in several ways.

Tadawul uses Global Industry Classification Standards (GICS) to break down the market into groups/sectors. At Level 1, there are 11 sectors which are subdivided into 24 industry groups. Therefore, a mixture of stratified and convenience sampling technique was adopted to select the interviewees. In particular, participants from each strata/industry were selected based on availability and their willingness to take part in the interview. The Tadawul research department approached at least one company representative from each industry for the interview; however, only 11 respondents completed the interviews in full.

4.7.2 Research Question 2

To what extent do Saudi Arabian firms disclose their CSR activities?

This question was designed for two purposes: first, to examine the level of CSRD and, second, to analyse the qualitative data in the annual reports using a quantitative technique. In order to achieve this, López et al. (2007) used a disclosure index based on the amount of information on CSR activities disclosed in the firms' annual reports. This is the method adopted in this study.

To recognise CSR practices in Saudi companies, a CSR checklist was developed. In developing the checklist, an analysis of the published annual reports was carried out to determine the frequency of CSR practices. A dichotomous process was applied to develop a CSRD index based on several CSR dimensions such as product and brand aspects, community involvement, employee information, and energy and environmental impact dimensions. These helped to capture the full context of CSRD. The CSR disclosures were then analysed and examined using content analysis. Marston and Shrives (1991) stated that calculating an index is a difficult task and claim that while disclosed items can be used for developing a CSR index, non-disclosed items should be examined to determine whether or not they are relevant to the research question. However, prior studies previously developed CSR indexes in different contexts (Chen and Jaggi, 2000; Waller and Lanis, 2009; Gamerschlag et al., 2011).

4.7.2.1 Measurement of corporate social responsibility disclosure index

Several approaches have been used to measure the CSRD dimensions based on previous studies. These include:

- A. Reputation indices:** Pava and Krausz (1996), Waddock and Graves (1997), and Stanwick and Stanwick (1998) all employed this technique and used a reputation index such as the one produced by Council of Economic Priorities. However, Mahoney and Thorn (2006) questioned the reliability of such indices, which rely on the Kinder Lydenberg and Domini (KLD) Index. Cochran and Wood (1984) raised the issue of subjectivity in such indices and suggested that index outcome depends on

the observers' own perceptions, which will lead to inconsistencies in the index. Chatterji et al. (2009) also raised questions about the validity of KLD's approach.

- B. Company rating approach:** Several authors have followed this approach to produce a CSR index; a few to mention are Inoue and Lee (2011), Oeyono et al. (2011), Karagiorgos (2010), Peters and Mullen (2009), and Orlitzky and Benjamin (2001). These studies employed the Dow Jones Sustainability Index, Global Reporting Initiative Index, or Kinder, Lydenberg and Domini Index.
- C. Survey using a questionnaire:** This approach requires a field study using a structured questionnaire and, based on the outcome of this questionnaire, survey analysis to produce an index. Tilakasiri (2012), Mishra and Suar (2010) and Ngwakwe (2009) employed this method in their studies. Nonetheless, this approach is not cost-effective and is a laborious and time-consuming exercise.
- D. Content analysis:** This approach is based on a thorough and critical analysis of the contents of firms' published reports about their CSR activities, especially those which are part of their annual audited reports. A review of studies that have employed this technique (Ehsan and Kaleem, 2012; Crisostomo et al., 2011; Bnoui, 2011; Kimbro and Melendy, 2010) demonstrates that the primary focus of this method is the text (i.e. numbers and words) whereas graphics and photographs of CSR activities are completely ignored (Guthrie et al., 2004; Guthrie and Abeysekera, 2006). Guthrie and Abeysekera (2006) further argue that this technique ignores the qualitative aspects of CSR activities, and the outcome is very much subjective, while Milne and Adler (1999) suggest that the reliability of a classification (coding) technique is more important than counting (measuring) CSR.

This research is a case study of Saudi listed firms and an attempt to produce a CSRD index for Tadawul-listed companies. In this case, a reputation index or company rating approach can be employed as no such index or rating is available for Tadawul-listed companies. After a consultation with the Tadawul research department, it was judged that a questionnaire-based survey may not produce the desired results and would be a time-consuming approach. Therefore, the content analysis approach, which implies analysing the degree of disclosure of CSR activities, was proposed to be employed for this research.

4.7.2.1 Content analysis

A review of the literature showed that, in summary, the content analysis of reports submitted by companies is an attempt to gather necessary data by classifying (codifying) quantitative and qualitative data into several groups. In the contemporary literature, largely the following approaches have been employed to conduct content analysis and quantify the required data.

Counting the number of words: Kimbro and Melendy (2010) is the most recent example of researchers employing this technique.

Counting the sentences: Vurro and Perrini (2011) and Khemir and Baccouche (2010) employed this technique in their respective studies.

Proportion of the page and number of paragraphs: Tilt (2001) and Unerman (2000) utilised this technique.

Content analysis has been criticised by several authors. For example, Milner and Adler (1999) questioned the reliability of the content analysis of financial reports for CSRD indexing purposes, and Unerman (2000) raised questions about the validity of this type of analysis. Unerman (2000) argued that content analysis based on the word count or proportion

of page is more problematic than sentence measurement, while Milne and Adler (1999) suggested that word count can yield misleading results because the mere number of words fails to give contextual meaning.

In the light of the above criticism and limitations, the present research followed a slightly modified approach to conduct content analysis. In this research, content analysis is based on a CSR activity coding sheet, namely: a checklist. It was assumed that this technique would provide more reliable and valid information about CSR activities and practices and would help to formulate a CSRD index.

4.7.2.2 Corporate social responsibility disclosure index for Tadawul-listed firms

The CSRD index for Tadawul listed firms using content analysis was produced via the following steps.

Step 1: Prepare a CSR checklist: At this stage, a system for classification of CSR activities was produced. This schema was based on the studies by Islam and Deegan (2010), Aras et al. (2010), and Hossain et al. (2006). The findings and methodology adopted in these studies was adapted to sort the reports' contents into groups, namely: theme of CSR reporting; forms of CSR reporting; and location. At this stage, all sections of the available reports such as corporate governance and CSR section, operation review, and/or chairman's report were thoroughly examined. Community involvement, energy, employee information, energy and environment were the possible themes, while text and/or photographs and text coupled with the financial data comprised the form of disclosure.

Step 2: Prepare a CSR disclosure checklist: This checklist was based on several CSR dimensions and helped to capture the full context of CSRD. The chosen dimensions were

product and brand aspects, community involvement, employee information, energy and environmental impact. These dimensions were included in the checklist as the contemporary debate on CSR activities demonstrates these as essential components of CSR, policies and list of activities. This checklist is based on the work of Saleh et al. (2010), Peter and Mullen (2009), Islam (2009), and Hossain (2006). Following Gujarati (2009), for every available item from the checklist in the companies' published reports, the company received a score of '1', or otherwise '0'.

Step 3: Producing the CSRD I: Following Rouf (2011), Saleh et al. (2010), and Haniffa and Cooke (2005), CSRD as a dichotomous variable was calculated using the unweighted disclosure index method. The scoring model applied in this study is additive where, to sum the final CSRD I, unweighted index is calculated:

$$CSRD I_j = \frac{\sum_{i=1}^n x_{i,j}}{n_j} \quad (4.1)$$

Where $0 \leq CSRD I_j \leq 1$

4.7.3 Research Question 3

Impact of CSRD on financial performance Saudi Arabia firms

To investigate whether CSRD impacts the financial performance of Saudi Arabia firms, quantitative data have been collected from the Tadawul Stock Exchange and analysed using the method of panel regression modelling. The quantitative data was collected from the firms' annual reports for the period from 2013 to 2017.

The method of panel regression analysis was deemed to be the most appropriate for this study since it makes use of both cross-sectional and longitudinal dimensions spread over a five-year time frame (Wooldridge, 2002).

It has been widely acknowledged in the literature that Saudi firms lack understanding of CSR and its importance. Though they engage in charitable giving, there is no strategic approach to CSR. There is no previous study available in this respect.

A baseline Ordinary Least Square (OLS) regression model has been run using Equation (4.2)

$$Y_{it} = \alpha_i + \beta_1 X_{1it} + \beta_2 X_{2it} + \dots + \varepsilon_{it} \text{ ----- 4.2}$$

Where Y_{it} is the dependent variable represented by firms' financial performance indicator, while X_{1it} , X_{2it} are independent variables, i.e. CSRD_i for the respective company and other control variable. The list of all variables is provided in the following table.

Table 4 Variables and Descriptions

Category	Variable Name	Description
Independent	Corporate Social Responsibility Disclosure (CSRD)	CSRD index
Dependent Variables	1. Return on Assets (ROA)	Net income in total assets
	2. Return on Equity (ROE)	Net income in total equity
	3. Earnings Per Share	Net income divided by shares outstanding
	4. TOBINQ	Market value of firms to book value of Assets
Control Variables	Firm size	Log of total assets
	Firm age	Log of age
	Firms' leverage	Debt (long term) to total share holders' equity

	Growth in total assets	This year's sales (S_t) after subtracting last year's sales (S_{t-1}) and divided by the last year's sales (S_{t-1})
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4.7.3.1 Regression Model

The regression model is a mathematical representation of the relationship between dependent and independent variables. The regression analysis is used for forecasting and modelling linear association between the variables.

4.7.3.1.1 Dependent Variables

This section describes the dependent variables employed in the empirical analysis. Following existing literature and to provide robustness to the analysis, both accounting based and market based financial measures are employed. On the one hand, Demirbag et al. (2006) suggested that performance measurement is the lynchpin for effective management. On the other hand, the firm's performance is the most important parameter to attract and encourage investors.

Neely et al. (1995) argued that the firm's performance is the process of measuring the firm's efficiency and effectiveness. The firm's performance is reflected in its financial statement approved by auditors. There are numerous ways to measure a firm's financial performance. Financial measures are often divided into two categories, namely: accounting-based measures and market-based measures.

In this study, a mixture of accounting-based and market-based measures are used as proxy for the financial performance.

It is worth noting that Saleh et al. (2011) observed that there is no association between different financial measures and CSR. While Scholtens (2008) suggested that market-based

and accounting-based measures are unreliable to determine the financial performance of a firm.

Accounting-Based Measures

This category of performance measures focus on historical performance and is considered a conservative approach to modelling performance.

Al-Matari et al. (2014) reviewed some 200 published papers and found that Return on Assets (ROA) is the most used proxy measure for financial performance found in 46% of the reviewed papers. It is followed by Return on Equity (ROE) found in 27% of the reviewed papers.

Therefore, in this research, both ROA and ROE are implemented to represent financial performance Reverete (2009) also suggested Earning Per Share (EPS) as a proxy for financial performance and this study also adopted EPS as a dependent variable.

Market-Based Measures

Market-based measures give a forward-looking aspect of the performance and help shareholders to evaluate the future performance of the firm. In contrast to accounting based measures, they are more linked to fair values of companies and are less conservative.

Al-Matari et al. (2014) observed that 78% of the reviewed work used Tobin-Q as a proxy for financial performance. While other measures such as Market Value Added and Annual Stock return were not considered as effective and significant. They were used in less than 10% of the reviewed papers.

Following these trends, Tobin-Q is employed as a market based proxy for the financial performance.

Table 5 Proxies for Financial Performance Justified by Previous Research

Proxy for Financial Performance	Previous studies with reference to CSRD
ROA	McWilliams and Siegal (2000), Salam (2009), Ehsan and Kaleem (2012)
ROE	Hossain <i>et al</i> (2006) Pahuja (2009)
EPS	Dragomir (2010) Kwanbo (2011) Oyono <i>et al</i> (2011) Ehsan and Kaleem (2012)
Tobin-Q	Garcia-Castro <i>et al</i> (2010) Inoue and Lee (2011) Schreck (2011)

It is worth noting that all previous studies showed inconclusive or contradictory evidence when it comes to the impact of CSRD on the firm's performance and furthermore, there is no such study conducted using data for Saudi listed firms. Therefore, it is useful to investigate the impact of CSRD on the financial performance of the firm.

4.7.3.1.2 Control Variables

Clarkson *et al* (2011) argued that the impact of CSRD on the firms' financial performance is impeded by some other features of the firm such as size, industry and age. Crisostomo *et al.* (2011) and Michelin (2011) have studied the role of size, age and industry type in CSRD's impact on financial performance. It is worth mentioning that Chen and Wang (2011) found that the type of industry has no impact on the relationship between CSRD and performance.

Based on the previous empirical research, this study uses size, age, leverage and growth in total assets as control variables, assuming that these variables may play a role in the impact of CSRD on the firm's performance. These control variables are estimated as follows:

1. **Firm Size (Size):** Log of total assets is considered to represent the firm's size (Clarkson *et al* (2011).
2. **Firm Age (Age):** Number of years the firm is registered with Tadawul.
3. **Leverage (LEV):** Debt to equity ratio of a firm.
4. **Growth in Total Assets (GTA):** This year's sales (S_t) after subtracting last year's sales (S_{t-1}) and divided by the last year's sales (S_{t-1})

Table 6 Control Variables Justified by Previous Research

Control Variables	Previous studies with reference to CSRD
Age	Moore (2001) Peloza (2006) Hossain and Reaz (2007) Retab <i>et al</i> (2009) Ehsan and Kaleem (2012)
Size	Moore (2001) Brammer and Pavelin (2008) Nelling and Webb (2009) Silva Monterio and Aibar-Guman (2010) Chen and Wang (2011)
LEV	Elijido-Ten (2004) Ho et al. (2012) Clacher and Hagenorff (2012)
GTA	Khan <i>et al</i> (2013) Zhang (2013)

In the light of above discussion, in order to study the impact of CSRD on the firms' financial performance, the following regression equations will be estimated using OLS method:

$$(ROA) = \beta_0 + \beta_1(CSRDI) + \beta_2(AGE) + \beta_3(SIZE) + \beta_4(LEV) + \beta_5(GTA) + \epsilon .. (4.3)$$

$$(TOBQ) = \beta_0 + \beta_1(CSRDI) + \beta_2(AGE) + \beta_3(SIZE) + \beta_4(LEV) + \beta_5(GTA) + \epsilon .. (4.4)$$

$$(ROE) = \beta_0 + \beta_1(CSRDI) + \beta_2(AGE) + \beta_3(SIZE) + \beta_4(LEV) + \beta_5(GTA) + \epsilon .. (4.5)$$

$$(EPS) = \beta_0 + \beta_1(CSRDI) + \beta_2(AGE) + \beta_3(SIZE) + \beta_4(LEV) + \beta_5(GTA) + \epsilon .. (4.6)$$

Where the variables ROA, ROE, Tobin's Q, and Earning Per Share (EPS) are the dependent variables used as proxies for financial performance; CSRDI is the key independent variable; and AGE, SIZE, LEV and GTA are control variables

4.8 DATA ANALYSIS

The qualitative interview data is analysed using a thematic analysis technique. This process involved identifying the most important and common themes from the interview transcripts and linking them to the arguments about CSR perceptions identified from the literature (Ryan and Bernard, 2000, p. 69). This data, in turn, was clarified through broader comparisons with the literature and other findings and arguments, thus giving greater insight and weight to the findings (Jack and Raturi, 2006, p. 346).

By contrast, the quantitative data collected through the questionnaires was analysed using descriptive statistics analysis. This technique helps to ensure effective insight into perceptions and views about subjects such as CSR (Easterby-Smith et al., 2012, p. 111). Further to this, the data on the CSRD index was also analysed using descriptive statistics to determine the levels of disclosure of different firms, and the overall extent to which Saudi firms disclose their CSR activities. These quantitative analyses helped to provide significant

insight into the perceptions of the current practice of CSR by business managers in Saudi Arabia, and also the extent to which Saudi firms disclose their CSR activities.

Finally, for the third research question, the general model outlined above was used to examine the quantitative CSR measures. These measures were transferred from the qualitative data using the disclosure index for the variables, including employees, customers, communities, environment, health and education, which are considered to be independent variables, as discussed in the literature review section. The financial measures used are Return on Assets, Return on Equity, Earnings per Share and Tobin's Q ratio, which are considered to be dependent variables. Panel data was employed using statistical software SPSS (version 24). The panel data regression model chosen was deemed appropriate as its main advantage is in controlling individual heterogeneity; it also provides more informative data, more variability, less collinearity among variables, more degrees of freedom, and higher efficiency (Frees, 2004). A number of prior studies (Elsayed and Paton, 2005; Nelling and Webb, 2009; Kang et al., 2010) have also employed panel regression to examine the impact of CSR on firm performance in developed countries. This method was thus deemed appropriate for analysing the panel data and bringing all of the research results together to generate valid overall outcomes.

4.9 ECONOMETRIC ISSUES

The Classical Linear Regression Model (CLRM) consists of following assumptions, about the way in which the data is generated:

- i. There is a linear relationship between Dependent (Target) variable and independent variables plus error term (disturbance)

- ii. Expected value of error term is zero ($E\varepsilon = 0$)
- iii. Error term has uniform variance and uncorrelated
- iv. Independent variable is fixed in repeated samples
- v. The independent variables are uncorrelated.

Any violation of any of these assumptions will create econometric problems which may invalidate the findings of the research. This section discusses the econometric issues which can affect the efficiency of the OLS in estimating the coefficients.

4.9.1 Autocorrelation

Autocorrelation is a situation when the current value in residuals is correlated with its past values.

If the third assumption of CLRM is violated, the error term is no longer independent of its past values. This situation is called autocorrelation. Although the OLS estimator is still unbiased in the presence of autocorrelation, the estimators will not be efficient which means they will no longer have minimum variance among all linear unbiased estimators. Furthermore, in this situation, the standard errors are calculated incorrectly.

Autocorrelation most frequently occurs in time-series data and could arise for any of the following reasons:

- a. Prolonged influence of shocks
- b. Inertia
- c. Spatial autocorrelation
- d. Data manipulation
- e. Misspecification (Kennedy, 2008).

When there is an unresolved problem of autocorrelation, the inference based on the OLS estimator will be misleading.

Kennedy (2008, p.126) suggests that the Durbin-Watson (DW) statistic is by far the most popular test for first-order autocorrelation, especially for small sample size. A value of DW-statistics close to 2 indicates that the first-order autocorrelation ρ is close to zero. If DW-statistics is smaller than positive autocorrelation is presence and if DW-statistics is greater than zero a negative autocorrelation is present.

The value of DW-statistics depends on sample size, number of variables and the actual values of the independent variable. That is why Maddala (1988, pp.202-203) suggest computing upper and lower limits for the critical values of the DW statistic that solely depend upon sample size and number of variables.

4.9.2 Heteroskedasticity

One of the assumptions of CLRM requires that in the proposed model the variance of the error term is constant. Heteroskedasticity occurs when variance of disturbance is not constant. If the model suffers from heteroskedasticity it means:

- a. The estimators are still unbiased and consistent because none of the explanatory variables correlate with the disturbance.
- b. It will increase the variance of the distribution making the OLS estimator inefficient.
- c. It results in higher values of t and F statistics because the variances of the estimators are underestimated.

The Breusch-Pagan test for heteroskedasticity is employed to detect any linear form of heteroskedasticity. This test postulates the null hypothesis that the variances of disturbances are equal and alternative hypothesis that the disturbance variances are multiplicative function of one or more variables. The alternative hypothesis implies that the variance of disturbance will increase with an increase in predicted value for Y i.e. dependent variable.

The Breusch-Pagan test calculates the F-statistics and a p-value. If p-value is smaller than the proposed level of significance, then the null hypothesis of homoskedasticity is rejected and conclude that there is significant evidence to conclude that heteroskedasticity exists in the model.

In order to make sure that proposed regression models fulfil the assumptions of CLRM and there is no heteroskedasticity or autocorrelation, robust standard errors are used. It should be noted that this technique will not affect the coefficients, however, t-statistics and standard errors will consider the issues of heterogeneity (Kennedy, 2008).

4.9.3 Multicollinearity

As mentioned above, CLRM assumes that in a regression model the independent (explanatory) variables are not correlated. However, multicollinearity does not depend on any theoretical or actual linear correlation among the independent variables.

The presence of multicollinearity does not make the estimators biased and the estimator is still BLUE i.e. Best Linear Unbiased Estimator; however, it will produce unreliable estimates with unexpected magnitude and/or sign and elevated standard errors, which means that one or more coefficients are estimated incorrectly. In presence of multicollinearity, assessing the relative importance of the independent variables will become cumbersome and elevated

confidence intervals of the coefficients and negative impact on the statistics will it difficult to reject the null hypothesis.

A suggested method to detect multicollinearity is to look at tolerance and its reciprocal, that is variance inflation factor (VIF). If the value of VIF is 10 or above, then the multicollinearity is harmful and will impede the findings of the regression analysis (Kennedy, 2008, p.199).

The issue of multicollinearity could be resolved by omitting one or more correlated independent variables from the proposed regression model/equation. However, Keneddy (2008, p.196) suggest that in certain situations this issue could ignored by a “do nothing” approach.

4.10 VALIDITY AND RELIABILITY OF DATA

For the quantitative data, validity and reliability is largely assured by the regulated nature of the disclosures upon which they are based, particularly the financial figures. In addition, the use of quantitative data means that mathematical and statistical techniques, such as Cronbach’s Alpha, could be used to ensure reliability and validity in the questionnaire results. However, the qualitative interview data could not be assured to be of the same level of validity and reliability. As a result, comparison with the literature was the only method available to be used in an effort to ensure the consistency of the data, which in turn supports validity and reliability. This approach was then further limited by the lack of similar data and evidence, due to the limited number of previous studies on CSR in Saudi Arabia, which makes external validity for the data challenging to achieve (Denscombe, 2014, p. 202). As such, this study has some limitations associated with reliability and validity.

4.11 LIMITATIONS

One of the main limitations of the research is that the results obtained from the study are highly specific to the accessible sample of individuals surveyed in Saudi Arabia. As such, it is possible that the views presented in the research will reflect the specific views of this group of individuals and may not necessarily be a reflection of the wider case of the Saudi economy (Saunders et al., 2009, p.101). In addition, the specified results may not reflect the general outcomes in the Saudi economy due to the small number of interviews which could be held. This may diminish the validity of the study (Braunsberger et al., 2007, p. 761). There are also limitations associated with the regression model as it is impossible to find complete and accurate specification, and the choice of variables is based on prior literature. The model assumed a linear relationship, which does not necessarily reflect reality. Further research should thus consider adopting a different model that is able to provide greater insight into different potential relationships including non-linear relationships.

4.12 ETHICAL CONSIDERATIONS

As the research used primary data, there are some ethical concerns to address. The researcher was bound by the “moral principles governing the conduct of an individual, a group, or an organisation” when conducting the research (Quinlan, 2011, p. 480). First, all respondents were required to provide their informed consent and agree to be recorded before they could provide any information. All respondents were also made aware of their right to withdraw from the interviews and survey at any time, should they so desire (Kimmel, 2009, p.45). Finally, all responses were treated anonymously and confidentially, ensuring that no privacy violations would occur during the completion of the research (Jankowicz, 2005, p. 130). Therefore, before distributing the questionnaires, using a cover letter, a brief description of

the rationale and motivation for the research was provided to the respondents along with an explanation of the significance of their contribution. By considering the ethics of the research at all times, the privacy of the information and ambiguity of the participants in both surveys and interviews was maintained and the respondents were assured that their identity would not be disclosed in any situation.

4.13 CONCLUSION

This chapter has outlined the methodology of this study and presented the data and sampling methods used. It has justified the use of interpretive and positivist philosophies and abductive approach in the light of the aim and objectives of the research, and identified the mixed-method research design as most appropriate for attaining the aims and objectives. This facilitated the development of the necessary research strategy and techniques, which have, in turn, been used to collect and analyse primary and secondary data for the purposes of the present research. This will allow for the remainder of the research to present the results of the data analysis, followed by conclusions and relevant recommendations.

Section II

This thesis is a study of CSR and CSRD in the Saudi business world. This section presents the findings of this research, discussion and final conclusions and recommendations.

Chapter 5: CSR in Saudi Arabia

5.1 INTRODUCTION

This section focuses on answering the research question “How do business managers of Saudi listed firms perceive CSR?” linking the responses that have been received from both the questionnaires and interviews with the literature review to better understand how CSR is perceived. Following on from the literature review, there is a noticeable difference between CSR in Arab nations CSR practices within the US and Europe.

Governments in the Middle East have in recent decades backed certain streams of CSR, noting those which seek to benefit local communities and overcome local issues which may be related to poverty, healthcare and education. There has been increasing emphasis on ‘environmental sustainability’, although at the domestic level only focusing on local issues such as water conservation and healthy living. These issues have dominated the political agenda in countries such as Saudi Arabia, prompting the government to push through changes which also incorporate the private sector. The Arab Forum for Environment and Development (AFED) conducted a report in 2011, which concluded that, given mounting challenges, *"transitioning to the Green Economy is not only an option for the Arab region; rather it is an obligation to secure a proper path to sustainable development."* Saudi Arabia was identified as one of the pioneering countries on issues related to water conservation, agriculture and urban planning; however, given that the nation’s main industry was crude oil production, the report did note that the country seemingly contradicted its CSR agenda. It looked to overcome the potential domestic challenges brought about by climate change. At the same time, Saudi Arabia was one of the world’s largest producers of emissions per capita

and had failures when it came to adopting CSR policies related to equality, discrimination and labour relations (Hussein et al., 2011).

The emergence of the Arab Spring in 2010-11 brought about an evolution of CSR within the Middle East, bringing issues such as poverty, inequality, and basic needs to the forefront of the political agenda in Saudi Arabia. According to Al-Rasheed (2013), CSR is understood as not only an economic necessity but also a political priority essential to social cohesion which will maintain peace within Saudi Arabia and silence any discontent with the ruling monarchy. With this, various programmes have been initiated by the Saudi government, providing generous assistance to poorer individuals, from providing direct financial help, to supporting them indirectly through subsidized utility bills, as well as the construction of a half-million low-income housing units within urban centres. Various programs have been initiated to strengthen partnerships between the public and private sectors and institutionalize CSR (Jamali and Sidani, 2012).

5.2 DATA: COLLECTION METHOD AND SAMPLE

As mentioned, the methodology incorporated both questionnaires and interviews. Overall, 170 questionnaires were originally distributed among management in Saudi Arabia, with 140 received by the deadline. Seven of these questionnaires were only partially completed, with these being rejected, leaving 133 for analysis below. For the interview process, out of 15 invitations, only 11 respondents completed the interviews in full. . To ensure the validity of the research, the researcher targeted professionals working within management roles within Saudi Arabia. While there was the opportunity for this sample to be expanded to increase the

number of responses received, this could be achieved only by surveying lower ranked workers. However, this would dilute the strength of the analysis below. Management responses were needed given the knowledge of business practices within Saudi Arabia, and how this links with CSR.

5.2.1 Data Analysis

The collection of data was both quantitative and qualitative in nature. To allow the questionnaires to be completed without the presence of the researcher, it was decided to adopt a closed question set. Here, respondents were largely limited to the responses, with question's either being multiple choice, or a 'Likert Scale' structure which would allow for a ranking process. While closed questions often come with less detail than open ones, the results are manageable for the researcher, with analytical tools used to present the data clearly for the reader, using a range of different graphs/ charts. The interviews were conducted by the researcher, and with this there was the opportunity to ask open-ended questions. Interviews are designed to elicit the interviewee's knowledge or perspective on a topic. These interviews are useful for delving deeper into the individuals understanding of a topic, bringing in their beliefs, understandings, values, feelings, perspectives and experiences of an issue (Silverman, 2016). They give the researcher the opportunity to collect richer qualitative data on the subject, asking open-ended questions into complex issues.

When it comes to qualitative data, the first step in analysis will be to reduce the data into a manageable form which could be presented to the reader. Coding can be used (see Taylor et al., 2015). A code is a word or a short phrase that descriptively captures the essence of elements of the material. To speed up the process, a coding framework was developed which

consisted of a list of codes expected to be used related to the topic. These include ‘carbon emissions’, ‘community’, ‘equality’ etc., all codes which the researcher will look for in the topic which then allow for the identification of themes such as environmental issues.

Codes are clustered together to form these themes. The research can then for underlying patterns and structures – including differences between types of respondents (e.g. adults versus children, men versus women) if analyzed together (Silverman, 2016). For then quantitative data, the researcher used descriptive statistics to showcase the results from the questionnaire. This information is presented using a frequency table. The frequency table shows the number of participants fall into each category (Merriam and Grenier, 2019). Frequency tables can be used to present findings in a report or can be converted into a graph for a more visual presentation. Percentages can also be calculated and used as a visual aide.

5.2.2 Demographics

One noticeable difference within the responses is that lack of women represented, however given the current business climate in Saudi Arabia, and the restrictions placed on women, there was an expectation that this would be the case. The researcher was surprised to have 13 female respondents for their questionnaire (10%), and three for the interviews (15%), however according to Miller (2012) the inclusion of more women in the responses may have presented a more-balanced result by being more diverse. Diversity within the business sector in Saudi Arabia presents a whole different topic though.

Demographics within data collection are importance to show that the participation rate is an accurate representation of the total population being surveyed. It helps control bias. For instance, if the researcher undertook a questionnaire in an industry dominated by men, but

only questioned women, then the results would suffer a level of bias given that demographics of that segment haven't been accurately represented. The World Bank (2018) estimated that Saudi women represent 16% of the total Saudi workforce in 2018, and so will the female participation in the questionnaires is slightly less, the choice in interviews provides a near accurate representation of the Saudi Arabian workforce split by gender.

5.3 CSR: BASIC AWARENESS (QUESTIONS 1 -11)

When discussing basic awareness, the response rate was high, while all respondents having an idea of what Corporate Social Responsibility was. CSR has been well publicized globally for several years, and so this was a given. A person's perception of CSR did differ through. For instance, **Q2** considered how SCR is defined in relation to action, with the option to select more than one. Out of the 133 responses, 122 ticked 'Giving Donations to Charity', with 101 for 'Reducing Environmental Impact', and 68 for 'Equal Opportunities'. The decision for equal opportunities could again be driven by stricter laws in Saudi Arabia and the culture which can be seen in business, although differences between how CSR is defined with charity, and the environment show that awareness on CSR is not static, it differs by the individual. For instance, of the 32 businesses related to the 'Energy' sector in Saudi, only 13 of them defined CSR as being related to reducing the environmental impact.

Q3 asked whether there was a structured approach to CSR within the business; 44 responded with a 'YES' with the majority of 89 saying that there was no structured approach. This does link in with the discussion previously had in the literature review showing that currently there is little regulation in Saudi Arabia which could prompt a structured approach to CSR. This

differs from Europe where increasingly stock markets are requiring businesses to increase their non-financial reporting; with the FTSE 100 one example whereby, businesses listed must provide data related to their carbon intensity. By increasing this level of reporting, businesses respond with structured approaches to both reports, and reduce their impact, especially when linked with public activism over CSR. However, the interviews concluded that the link with activism is not present in Saudi Arabia. Q5 asked interviewees about the link between success and CSR. While there was some suggestion that consumers view businesses engaged within CSR more highly than others, there was no suggestion that this would ultimately impact on their buying decision. One respondent from retail noted that *"price is key to win customers"*, emphasizing that CSR involvement may have little impact on a business performance. Instead, price is the main factor, and with this, businesses will remain competitive through offering the lowest price, as opposed to the more sustainable product.

Prior to delving into the different segments of CSR, it is first worth mentioning that after analysing the interview responses, it would appear that CSR has been misinterpreted as charity for so long that general perception of what it entails, in the mind of the Saudi public, is far from the reality of what responsible business involves. Decades ago, CSR may have been solely focused on domestic interests, with charity the main driver. However, over recent years, the focus of CSR has expanded to incorporate sustainable business practices, being those focused on reducing carbon emissions, to those related to waste management, and 'Fairtrade'. Consumers have become more aware of the perils faced by the planet and the environment. Solving these global issues has not fallen on businesses, with new technology such as renewable energy providing the ability to do so. This lack of understanding has

slowed the spread of CSR within some countries though, with companies focusing on one-off community initiatives to appease the public.

Focusing on the interview responses seen in Q7, the main challenge for Saudi businesses is defining CSR, and 2nd, having a definition that fits in with Western peers. Evaluating the interview responses, it could be said that 77% of responses mentioned that there was a challenge in defining CSR within the business, while 85% in some way linked CSR currently with philanthropy. This was further identified in Q9/Q10 of the interviews, with the vast majority of phrases/ activities being linked with charity; being helping the poor, homeless, and supporting local communities. Within Western businesses there would have been a greater selection, from sustainable supply-chains, to the environment, water management, health, wellbeing etc. To Visser (2011), the list on CSR could be endless as more pressure is placed on businesses from their business managers. This understanding though is not present in Saudi Arabia, and so there is a believe that senior management within Saudi Arabia have a low level of awareness regarding CSR overall, and over recent developments.

Responses from Q11 were removed from the study given issues with respondents ranking their answers in different ways, distorting the ability to accurately measure.

5.3.1 CSR; Environment Issues

While environmental issues were mentioned by respondents, from climate change to the acidification of oceans, the current level of commitment from businesses towards these issues lacked credibility. Q11 in the questionnaire asked respondents to rank CSR priorities for their business, with 'Environment' one option out of the nine listed. Out of the 133 responses accepted for analysis, the average score for this option came in at 6.2, showing somewhat of

a reluctance to act when compared with prior research from Steurer et al. (2012) who discuss a more-proactive approach from businesses in Europe/ and the US.

This result should not be detrimental for CSR activities within Saudi Arabia given that the rank showed greater attention on ‘Employee Care’, ‘Community Development’, and ‘Education’ from Saudi businesses. Within the literature review it was noted that Saudi businesses were noted to be more involved within local CSR as opposed to global issues such as environmental protection. In some cases, this could be linked with the focus Saudi currently has on hydrocarbon production, and the reliance Saudi Arabia has on this sector.

Q12 was also related to the environment in asking respondents to ‘rank’ the performance of their business in relation to:

Table 7 Environment

Q12 - Environment	Score	Average	Mean
1. Pollution control	372	2.80	3
2. Recycling and Solid waste management	402	3.02	3
3. Green belt (Development and Maintenance)	155	1.17	1
4. Caring about carbon footprint (Energy saving)	501	3.77	3
5. Water management (rainwater harvesting)	472	3.55	3
6. Taking steps to improve public awareness about environment protection	192	1.44	1

Given the ranking mentioned in Q11, it was somewhat surprising that the respondents mentioned a positive performance of their business on the above; with an average score of 2.8 for pollution control, and interesting result given that 32 of the businesses, or (24%) in the ‘Energy’ sector, which given the economic situation of Saudi Arabia would be linked with hydrocarbons. Although, after seeing these results the researcher looked to undertake some reading into Saudi business ‘etiquette’, with both Martin and Chaney (2012) and Marsh (2015) noting how management within Middle Eastern businesses tend to be more optimistic

on their current situation. What must also be mentioned, cited in Q14, is that Saudi businesses are opaque within their reporting that Western peers, although this is expected given that a higher % of Saudi businesses tend to be owned, or have links with the state. Unlike publicly listed businesses, they are not obliged to report this information to the market. The results below show that businesses are more likely to report to the government, and investors; keeping information protected. This compares with Western peers who have become more open to reporting CSR issues; (1) to meet increasing regulation, and scrutiny on such, but (2) to use such as a creator of value within the business, discussing how increasing CSR can be used by some business to warrant a premium price (Grayson and Hodges, 2017).

It is interesting to note that the results of this differed based on demographics. While the average score for ‘Pollution Control’ was 2.8 for the total, it rose to 3.1 for the 13 female participants, while those 24 aged under 30 gave an average of 3.6; showing a more ‘worldly’ approach to CSR. While the scores from Q12 remained low, it could be noted that in all categories except ‘Green Belt’, the average score from those aged under 30 was higher than the overall average. Does this suggest that younger management are more optimistic on how businesses are tackling CSR issues given their understanding over the impact of pollution, or on the carbon footprint?

5.3.2 CSR: Education and Training

Q12 also asked businesses to rank their performance based on several educational, training factors:

Table 8 Education and Training

Education and Training	Score	Average	Mean
1. Community based support for basic schooling (i.e. Primary-Secondary)	588	4.42	4

2. Offering scholarships to poor students to unleash their potential	298	2.24	2
3. Providing infrastructure support to build schools and colleges in rural area	161	1.21	1
4. Providing necessary equipment to existing schools/colleges	304	2.29	2
5. Providing training to improve employability of youngsters in the community	444	3.34	3
6. Providing in house training program to enhance employability of local youngsters	152	1.14	2
7. Work placement for youngsters (providing sponsoring)	294	2.21	2

It was expected that results for education would be higher given that the Saudi business environment tended to support family-owned, locally controlled businesses which would then have greater participation within their local communities. This was noted in the ‘Community based support for basic schooling’ whereby respondents ranked their businesses on average a 4.42, showing that there was a focus on aiding education for nationals. However, businesses scored poorly on other variables, in particular on in-house training which would be aimed at enhancing local youngster employability. The surprise here is that youth unemployment remains a major challenge for Saudi Arabia, with Arabian Business (2016) noting that the rate was 33.5% in 2016, with the expectation that this would increase further to over 42% by 2030. The main issue for Saudi is that the economy will be unable to create enough jobs within the formal economy to meet population growth, while other industries would continue to turn to expatriate workers to fill skilled posts.

However, one reason why it may be low is that the expectation for education may fall onto the state. In the academic year 2010-11, Saudi Arabia had 66,000 students in the US - a number which dwarfed China (Kickmeyer, 2012). The report elaborated how in 2005, King

Abdullah launched Saudi Arabia's international scholarship program to equip future generations to handle the country's main challenges, including declining oil reserves which would inevitably place greater importance on non-oil development. By 2012, about 130,000 young people were part of the scholarship programme, studying internationally, with an estimated cost of at least US\$5Billion to the state. Although, in recent years it was noted how such was becoming costly for the state to upkeep, which would then place greater pressure on private businesses to offer education. The results above may showcase the beginning of what is expected to be a growing CSR activity throughout Saudi Arabia.

5.3.3 CSR: Health Care (Community and Employees)

Healthcare within the community links positively to the charity which has been discussed, especially when it comes to providing facilities for those poorer groups in society. The results below show that businesses have the basics in place, mainly offering healthcare to their employees.

Table 9 Healthcare

Healthcare	Score	Average	Mean
1 Providing basic health care for employees and their families	545	4.10	4
2 Organizing healthcare camps in the villages	301	2.26	2
3 Organizing drinking water in the villages	251	1.89	2
4 Sponsoring hospital beds	149	1.12	1
5 Organizing Blood Donation Camps	488	3.67	3
6 Provide special care e.g. <i>Equipment for disabled people</i>	302	2.27	2

There was also success when it came to organizing blood donation within society, again putting the focus on local communities. However, some of the deeper charitable activities received poor scores such as ‘Sponsoring Hospital Beds’, which only received a mean score

of 1. Like education, the driver behind this could be the obligation of the business versus the state. One striking result though was the low score given the providing special care, with the example given of equipment for disabled people. An average score of 2.27 was poor given that many Western economies have regulation in place to protect disable people from discrimination, which in many cases means that businesses are obliged to provide special care if required by their employee's, or their customers.

5.3.4 CSR: Community Development

Community development was featured highly in both the questionnaires, and interviews. From those interviewed, there appeared to be a focus on the business being actively involved within the local community, creating this relationship between the worker and the business. However, the importance of this could be linked with the political situation in Saudi Arabia. The 'Monarchy' structure remains in-place given that the government continues to appease citizens. Given the link between politics, and business in the country, businesses play a key-role in aiding the state to provide local development, as well as support living standards (see Jones, 2013). The 'Arab Spring' highlighted the issues that many Arab states faced by ignoring the needs of their people. Development over the years had failed to protect their local citizens from failing health, falling incomes and degradation to the local environment. The rise of discontent toppled the state in Egypt as well as other North Africa states leading the Arab world to finally see the need, and potentially for greater involvement within CSR, especially that involved with poverty reduction and raising living standards (Malik and Awadallah, 2013).

Table 10 Community Development

Community Development	Score	Average	Mean
1. Developing/Organising Community Welfare Centres	501	3.77	4
2. Supporting the Cottage-Industry	188	1.41	1
3. Developing/Organising Training Centres (E.G. Computing, tailoring etc.)	533	4.01	4
4. Women empowering projects (especially in Rural areas)	203	1.53	1
5. Socio-Cultural development of communities in villages and rural areas	533	4.01	4
6. Taking steps to improve quality of life of villagers	545	4.10	4
7. Providing guidance (giving them access to market, latest farming techniques etc.) to animal farmers and vegetable farmers who have small piece of land.	321	2.41	2
8. Developing rural roads	498	3.74	4
9. Developing water tanks	445	3.35	3
10. Developing drainage and rainwater management	533	4.01	4
11. Developing sanitation	522	3.92	4

Tamkeen Sustainability Advisors ran a study in 2010 titled ‘The Evolution of CSR in Saudi Arabia’ which found that Saudi businesses had begun to appreciate the ‘value’ associated with engagement into CSR practices beyond that of charity (Tamkeen, 2010). The businesses questioned recognized three main areas of ‘contributions’, namely community, environment and employees. CSR boosted morale within the workplace, benefitting employee productivity, while also creating value for local communities. One key quote from the study was *"Due to the cultural heritage, there is a general perception, however, both in the business community and the public at large, that social responsibility and welfare is the primary role of government"* (Tamkeen, 2010, p. 7). Essentially, businesses had in the past steered away from CSR initiatives in the environment given the idea that this was for the government to undertake on a national scale.

This can be linked back in with Q4, with the responses shown below:

Table 11 Drivers Behind CSR

Q4. Driver behind CSR	Total
Company Reputation	988
National Interests	798
Brand Loyalty	545
Regulatory Compliance	498
Financial Performance	585
Local Community Needs	1012
National Policies	833
Environmental Concerns	502
Religious Values	952
Interests/ Pressure from Business managers	602
	7315

The top four responses here were (1) Local Community Needs, (2) Company Reputation, (3) Religious Values, and (4) National Policies, showing this link with CSR and national interests. However, it is interesting to note that some results differed greatly between ages, and gender. For instance, the notion of religion being behind CSR was obviously important overall to the questioned group, however the responses given by women were 5.6% lower than that of males, while the responses given by those aged below 30 (24 in total) were 13.2% lower than those aged 50+. Ultimately, there is a divide emerging when it comes to CSR. For Saudi Arabia, it must be remembered that younger workers are more likely to have been educated abroad, potentially in Europe, or the US. In turn, these workers may have integrated into their local communities while studying, with their views becoming more liberal, while the idea of CSR, and the actions that business must take will have Western influences. On the opposite, it could be noted that the average rank from those aged under 30 related to the 'Financial Performance' was +14.6% higher than the overall average, while a similar result of +11.1% was noted in brand loyalty.

5.3.5 CSR: Employee Welfare and Labour Relations

There was scepticism when asking these questions to Saudi businesses given how the policies, and equality of workers differs in Saudi compared with Western peers. For instance, ‘The company has and carefully follows a diversity policy’ where the mean score was 5. While management may believe that their businesses are performing compared with Saudi standards, when compared with diversity in the UK, or wider Europe there are clearly differences that leave Saudi Arabia behind development. The same explanation could also be given to the average score of 4.76 received for ‘discrimination’, when Utas (2016) would note how Saudi Arabia remains oppressive of women rights to work when compared with Western democracies.

Table 12 Employee Welfare and Labour Relations

Employee Welfare and Labour Relations	Score	Average	Mean
1. Company follow Health and Safety standards in all spheres of business	603	4.53	5
2. Support work-life balance	398	2.99	3
3. The company has and carefully follow a diversity policy	612	4.60	5
4. The company management takes steps to prevent all forms of discrimination	633	4.76	5
5. In your expatriate employees has same rights as the locals	623	4.68	5
6. The employees are supported to upskill themselves (continued professional development policy)	588	4.42	4
7. The company takes necessary steps to improve the no. of local staff (i.e. Saudi nationals)	642	4.83	5
8. The company takes necessary measures to increase female number of employees.	401	3.02	3

Still, the results are interesting given the links once again with local, and the highest average score of 4.83 which focused on improving the number of nationals within the workforce. With the state announcing their desire to create 300,000 private sector jobs for Saudi

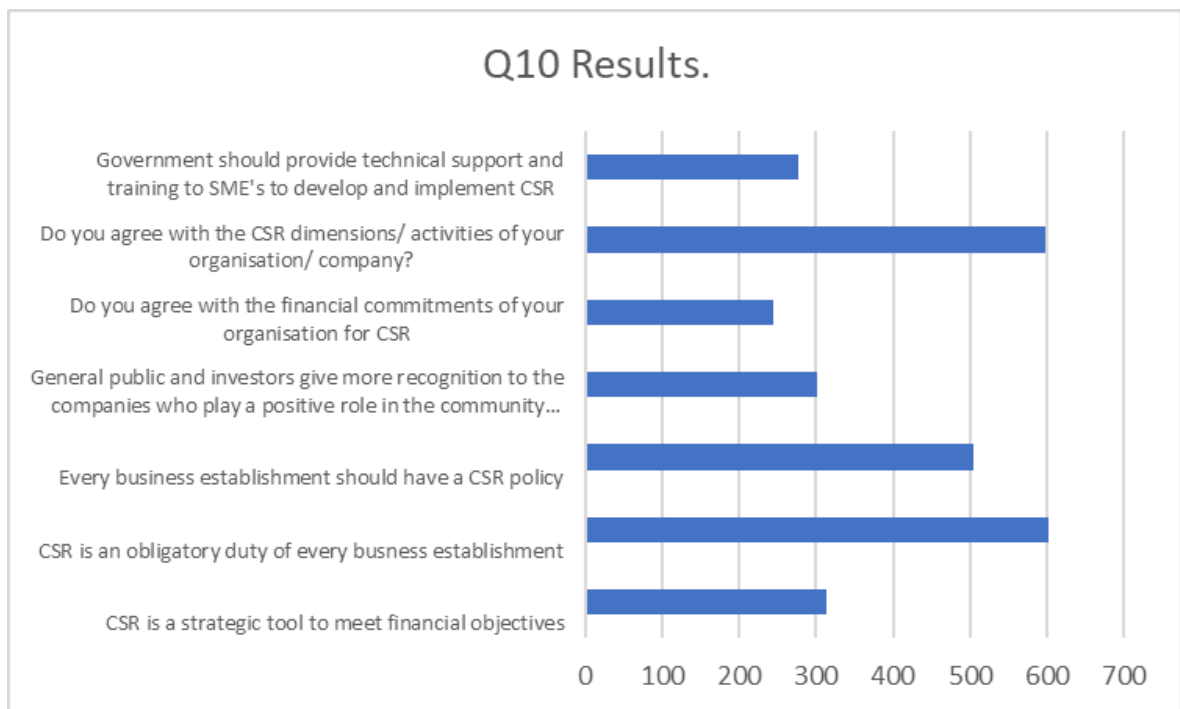
nationals in 2015 (Sophia, 2015), it could be established that this desire has been flowed down into businesses as an initiative for the future.

5.3.6 CSR: Impact on Business

From a business perspective, the questionnaire results appear to suggest that CSR policies have little impact financially on the business. In the literature review it was noted that businesses in the Western world used their involvement with CSR initiatives to create value for their business, allowing them to (1) be more competitive, or (2) charge a premium price for their products. By increasing CAPEX² on CSR projects, businesses here could essentially gain a return on their investment (Tang et al., 2012). However, using the results from Q10 this does not appear to be the case in Saudi Arabia. Each statement was ranked between 1 and 5, giving a maximum overall score of 665. As shown, the lowest cost went to linking CSR with meeting the financial commitments of the business, followed by recognition, and financial objectives. Clearly this shows that businesses in Saudi do not see CSR policies as a strength for the business in developing, instead it appears more that CSR is viewed as a necessity to help local communities and support national policies driven by the ruling monarchy.

Figure 3 Q10 Results

² Capital expenditure.



Similar responses were also seen in the interviews. When listing CSR activities, all interviewees focused on charity, and activities which included the local community, and ultimately benefitted Saudi nationals. There was little to mention on initiatives that are focused on improving sustainability. For instance, not one of the interviewee's mentioned CSR activities that involved sourcing sustainable materials through the supply chain, something which is becoming more common in Western businesses as stakeholder scrutiny grows. However, it appears that there isn't the same level of scrutiny from Saudi business managers, and especially customers; and without such businesses will be slow to respond. In Q13 of the interview 'In your opinion why businesses take up CSR activities', one response read *"to support our workers, and local communities, ensuring that everyone benefits from the success of our growth"*. Similar responses were also noted, with the main theme being this focus on local integration. Islamic teaching views social responsibility as an obligation,

another reason as to why the focus of CSR is locally and on the community. One quote from the Quaran states *"in their wealth there is a due share for the beggar and the deprived"*, showing the importance of charity from those who are wealthy, including businesses, to those in need.

The results from Q13 within the questionnaire can also be shown below. Again, there is this pivot towards social benefits as opposed to the financial benefits:

Failure to monetarize CSR has left Saudi businesses with an informal CSR process. In the interviews, a theme from Q6 ‘non-commercial factors which impact the business’, was that there was little mention of CSR and being a ‘good corporate citizen’ according to Visser (2011). The focus remains on price, and price competition, with the main non-financial factor being relationship building between businesses. With the Saudi sector still dominated by family-run businesses it would be expected that interpersonal relationships between managers are important for winning orders, innovation and collaboration.

Table 13 Impact of CSR on Different Aspects of Business

Q13: Impact of CSR on following aspects of your business	Score	Average	Mean
1. Improve sales by improving the customer loyalty	277	2.08	2
2. Enhance customer satisfaction and brand awareness	301	2.26	2
3. Enhance employee retention and job satisfaction	545	4.10	4
4. Inspire employees and improve employees' morale and motivation	500	3.76	4
5. Improve the social integration	598	4.50	5
6. Help the country to meet macroeconomic targets such as reduce unemployment etc.	277	2.08	2
7. Bring efficiency and reduce the economic waste	401	3.02	3
8. Protect environment by developing environment friendly services and products.	498	3.74	4
9. Make it possible to comply with the international standards like ISO etc.	422	3.17	3
10. Attract more investment	301	2.26	2

11. Bring general financial gains for the company such as enhances ROA, ROI, market value etc.	289	2.17	2
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To add, the interview responses from Q15, one 1 of the 11 interviewees linked CSR with a business being more successful. If there is not this link, and there is no potential payoff for the business engaging into CSR, why ultimately would the business decide to increase the spend on projects involved with the environment, or reducing carbon emissions etc. CSR for Western businesses has not only presented an extra cost for the business, but an opportunity to increase their competitiveness in the market, and actually benefit financially from adopting CSR policies. CSR presents businesses with a USP³, allows them to charge a premium price, or improves innovation through greater inclusion within the workforce (see Welford, 2013). But, given that only one respondent here sees the link between CSR and a more successful business, are these potential benefits being communicated to senior management in Saudi Arabia. It could also be questioned whether Saudi consumers value CSR initiatives such as reducing carbon emissions, or Fairtrade food products; and whether they would be willing to pay a premium price for these, or more likely to shop with the business which have them?

One study by Tian et al (2011) links in with the question, especially when it comes to how demographics influence CSR responses from Chinese consumers. The key finding for this study was that middle-class consumers are more likely to react positively to CSR given their disposable income, and so their ability to purchase-up to more sustainable, or ‘better’ products. Lower income groups may not have this luxury, and so there is a greater concern over price (Tian et al., 2011). Added with this is commentary from the Borgen Project (2018)

³ Unique Selling Point.

which suggests that while the official poverty rate in Saudi Arabia was 12.7% in 2017, the number of people struggling financially could be far higher, with a forecasted 4 Million Saudi's living in poor quality urban housing, while 60% will be unable to afford their own homes in urban centres. With this, will consumers be more focused on the CSR of a product/service, or the price; with the answer influencing how businesses respond.

5.3.7 CSR and CSRD (Question 14-18)

The influence of religion in this study also helps understand CSR from a reporting side. In Q6, 103 out of 133 answered that there was no formal budget for CSR activities, while in Q15, 92 out of the 133 noted that there was no evaluation of CSR activities to gauge their effectiveness. However, understanding the religious side, it would appear that Saudi businesses are compelled to make local investments to fit in with the social norm, and meet their social obligations. It may be questioned whether an investment into saving the ecosystem in Brazil would garner then same social obligation as supporting the poor within local Saudi villages. This was also evident in Q12 of the interview when the interviewees were questioned over the necessity to perform CSR activities in their industry. The main theme was again focused on community development. There was no need to perform specific industry CSR activities; instead there was a general consensus that businesses were focused on helping those around it.

Q17 was supportive of this notion given that all but one mentioned that CSR activities should not be terminated in times of 'economic crisis'. With the activities more focused on meeting social obligations; derived from religion or the needs of the state, there is less room to remove them. This would compare with a business which was investing in renewable technology to

cut their carbon emissions, whereby if the business experienced lower profitability, they could cut this programme, or scale back the investment. However, once CSR becomes a social norm as looks to be the case in Saudi with local communities, there is less option to remove such without creating a PR issue for the business in question. In the interview, Q16 asked whether CSR was worth the cost to business with a unanimous ‘Yes’ coming from all respondents. Many detailed that CSR is part of their business, and that they *“must undertake programmes which better their local communities.”* (Interview Response).

Q14 of the questionnaire asked respondents to note how they report their CSR activities to business managers. According to the results below it is also evident that Saudi businesses remain opaque within their reporting, with the main recipients being the government, and investors. The public do not appear to receive much information related to CSR from businesses. However, there could be several reasons behind this number. First is that it appears from the discussion above that much of the CSR in Saudi is aimed at local communities, and so is visible by the public who may benefit from policies aimed at alleviating poverty and improving local infrastructure.

Table 14 Stakeholders

Q14: Stakeholders	Never	Occasionally	Always
General Public (Community)	71	62	
Customers	31	100	2
Employees	17	78	38
Investors	0	34	99
Suppliers	0	46	87
Government Bodies	0	31	100

Interestingly, by not publicly reporting their CSR activities, as well as the effectiveness of such it could be argued that these businesses may be overstating their actions. In 2015, Saudi

Prince Alwaleed bin Talal announced plans to donate his personal fortune, estimated at the time at US\$32 Billion, inspired by the Bill and Melinda Gates Foundation. The money will go to the prince's charitable organization, Alwaleed Philanthropies, to which he has already donated \$3.5Billion, however since there has been no public mechanism for tracking the success of this promise (BBC, 2015). The same could be said for Saudi businesses given that CSR remains largely informal. Actually, only 5/133 respondents noted that their business had a dedicated department to deal with CSR, with the majority answering 'Other', with the main theme being an informal process done through the HR department with much of it being requests from charities, or local community projects for resources. 49 also noted that the business was linked with a 'Foundation Trust', whereby company money can be donated to this trust for charitable projects.

5.4 CONCLUSION

To conclude on "How Saudi listed firms perceive CSR?", while Saudi businesses do have knowledge of CSR, the perception of this is more focused on local initiatives which benefit local communities, as opposed to the global issues which dominate the focus of CSR investment, including the environment and sustainable business development. A greater focus from Saudi businesses is placed on local charity involvement, as well as improving communities, which can be linked with several political, and economic challenges faced by Saudi Arabia. The Saudi political system relies on this relationship between the state, and the people. Previous uprisings within the Middle East have been prompted by the people who feel let-down by the state, seeing their living standards decrease, in turn prompting this revolutionary action to overthrow a ruling monarchy system. Saudi Arabia has avoided this

given government spending which benefit nationals. Alkhalisi (2018) discusses how tensions rose in the country when the government looked to make cutbacks to the budget following a fall in oil prices; these cuts were later reversed after public discontent.

It would also appear that religion links with CSR in Saudi Arabia, and with this there is a strong relationship with supporting local communities and overcoming national challenges, as opposed to the more global CSR issues which have become commonplace within Western businesses. CSR in Saudi Arabia appears to be more a social obligation, as opposed to Western economies where there is more of a financial link with CSR (see Visser, 2011). Western businesses could be classed as selfish given this movement into CSR is focused more on meeting stakeholder needs to improve their own competitiveness, and financial performance. Linking back to the literature review, both Habbash (2017b) and Mandurah et al. (2012) suggested that CSR activities were underdeveloped within Saudi Arabia, and the wider Middle East. Looking at the results here it would appear that this does hold when Saudi businesses are compared with their Western peers. There appears to be less notable CSR when it comes to environmental protection, waste reduction, plastics etc., all topical issues at the moment. However, what the results also show is that Saudi businesses are deeply engaged within local charity work, and aiding the state in providing a better living standard for nationals. Within Saudi business there is already an embedded culture of 'giving' which runs deep given business links within the state, as well as the proportion of family-owned businesses and their personal religious beliefs linking within how the business is run. The social infrastructure is mainly driven by religious/ and cultural causes, a fact that fosters a culture driver for philanthropy.

The private sector has begun to evaluate its social and development roles, especially as the Saudi state seeks to reduce its role in the market given ‘Vision 2030’, the development of the non-oil economy and budget constraints due to the lower oil price. With this, the expectation may be that while Saudi businesses will increase their focus onto CSR, it will remain nationally focused. Only a significant change in how the Saudi consumer views CSR, and derives value from it will significantly change the direction of businesses. However, the Saudi model of CSR shown above should not be rejected given that it would appear from history that Saudi is simply behind in development, not a negative. About forty years ago, when the West started debating in earnest the role of the corporation in society, Corporate Social Responsibility (CSR) was primarily focused on corporate charity and donations (see Moura-Leite and Padgett, 2011).

Key Findings

- There is a widespread understanding of CSR in Saudi Arabia, however this is dominated by local charity work, and philanthropy aimed at local communities, and Saudi nationals.
- CSR seems to be developed by a growing link between the public, and private sectors. Businesses are essentially helping the Saudi state to meet their social goals.
- Religious beliefs also play an important part of CSR within the kingdom; with managers seeing charity work as a social obligation.
- Development into the expansion of CSR to incorporate other ‘issues’ such as equal opportunities within the workforce, work/life balance, reducing carbon emissions is lagging behind Western peers.

- There doesn't appear to be a strong link with other business managers in Saudi Arabia such as the general public, and customers. Businesses are still opaque within the CSR reporting, and with such there is less scrutiny from business managers. If customer scrutiny of sustainable business practices grows for the environment, or waste management *etc.*, then businesses may need to act to protect their market competitiveness, however given the demographics of Saudi Arabia coupled with the potential for financial performance.
- Perception that younger management appear to have a more 'worldly' view of CSR, as well as a more *optimistic* view.

Chapter 6: Corporate Social Responsibility Index

6.1 INTRODUCTION

This chapter presents the data analysis, beginning with content analysis undertaken on the reports released by businesses listed on the Tadawul exchange. As noted above, content analysis is a research technique used to make replicable and valid inferences by interpreting and coding text (see Riff et al., 2019). In this case, the researcher develops a CSRD Index through the identification of key terms associated with CSRD, with the index using a scoring system in which the researcher identifies specific mentions of CSR within these reports, explained in the previous methodology chapter. Following on from the literature review, the content analysis will be split down in several sections, from environment, and community among others.

and

6.2 THEMES FOR CSR DISCLOSURE

Considering the Table 6.3 below, it is surprising to see that the main theme here has been environmental responsibility, an increasing trend since 2013. Community services followed after also increasing on the score seen in 2013. Though, for both it must be mentioned that the actual increase since 2013 has been minimal and given that the score mentioned below is linked to actual mentions in these annual reports, the increase in score accounts for little when it is related to the number of mentions.

Table 15 Scores for Each Segment

	2017	Change Since 2013
Community Services	0.49907407	0.001851852
Product/ Services Responsibility	0.46666667	-0.024074074
Employee Services	0.49897119	-0.014403292
Environmental Responsibility	0.50252525	0.005050505

The largest movements between 2013 and 2017 were negative, with both Employee Services and Product/ Services Responsibility down by -0.014 and -0.024 respectively. The fall in Employee Services was particularly interesting given the prior discussion which showed a strong bond between Saudi society and business (see Mandurah et al., 2012), though when these results are considered it must be remembered that the score is determined by the number of mentions divided by the number of categories which fall into that section as noted above. So, while the score for employee services is rounded up to 0.50, there are 18 categories which suggests that on average each business mentioned 9 of them, far higher than any other category in terms of the number of mentions, but still weak when the researcher would expect to see a mention of each.

Although the change here could be explainable when developments in the Saudi Arabian economy are considered, giving an overview of the external market conditions being faced by these businesses. IMF (2019) data below shows the historical economic performance of Saudi Arabia between 2013 and 2017, with the marked slowdown in economic growth and reminder of the environment in which these businesses are operating:

Table 16 Economic Data for Saudi Arabia

Subject Descriptor	2013	2014	2015	2016	2017
GDP Growth (%)	2.674	3.678	4.106	1.671	-0.742
Total investment	26.47	28.75	35.12	30.93	28.86
Inflation Rate	3.52	2.2	1.27	2.02	-0.85
Unemployment Rate	5.56	5.72	5.59	5.6	6

Source: IMF (2019)

Linking in with the above table, the score can be considered another way, being the total number of mentions within the sample. As noted above, each score is determined by the number of mentions, divided by the number of items in each theme. The table below shows the scores converted into actual mentions:

Table 17 Actual Number of Mentions by Segment

	2013	2014	2015	2016	2017
Community Services	537	519	541	542	539
Product/ Services Responsibility	265	273	284	266	252
Employee Services	998	922	937	978	970
Environmental Responsibility	591	592	592	628	597

The results here so that little progress has been made since 2013 in improving total disclosure on the Tadawul Exchange. Split between the 108 businesses surveyed, the improvement in actual mentions is minimal, being only a +2 change in the number of mentions related to ‘Community Services’. Though, what this table doesn’t show is how detailed these measures are, or what type of disclosure they are; from a holding statement, to a more detailed quantitative analysis related to the environment, or social responsibility etc. These questions will be answered within the content analysis.

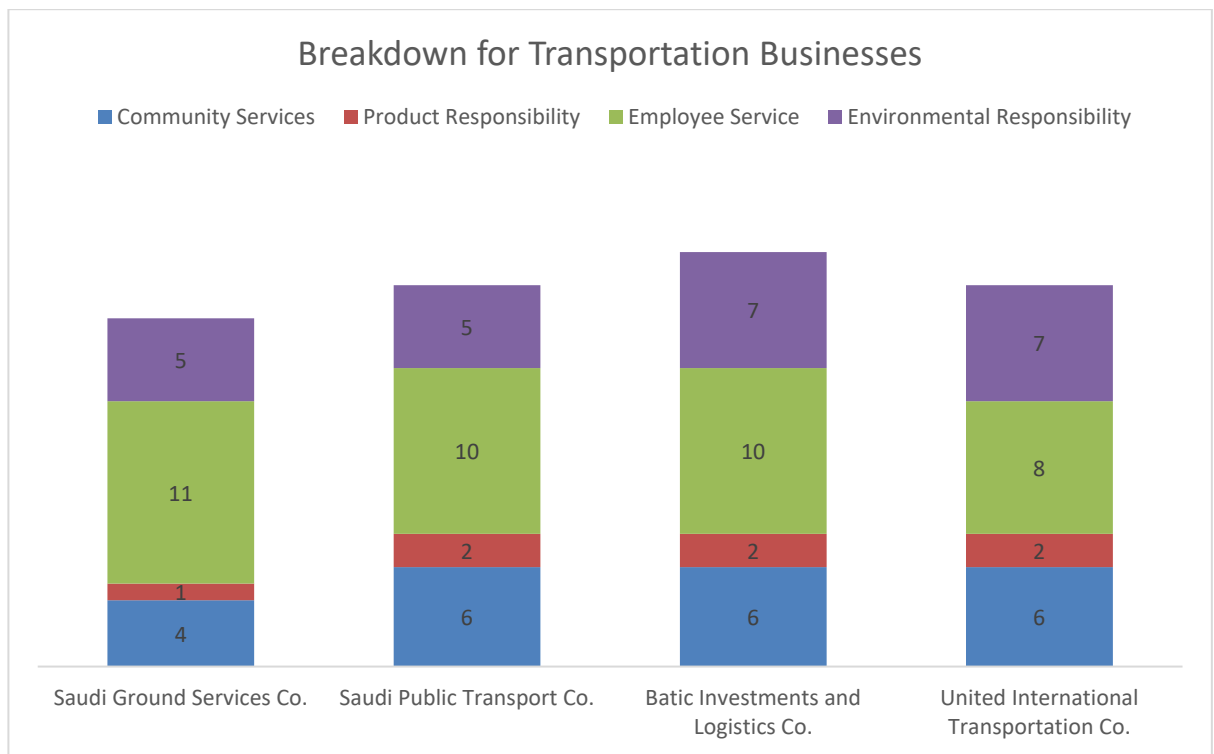
When the results are split down further some trends can be identified. Table 6.6 below shows the average CSRDI score per annum broken down by sector, and sorted on the 2017 result:

Table 18 Breakdown of Average Score by Sector

Sector	2013	2014	2015	2016	2017
Media	0.5227	0.4773	0.4545	0.4773	0.5227
Telecommunication Services	0.5379	0.5303	0.4545	0.5379	0.5227
Transportation	0.4659	0.4773	0.5852	0.4375	0.5227
Consumer Services	0.5136	0.5318	0.4682	0.5227	0.5136
Materials	0.5006	0.4811	0.4987	0.5038	0.5088
Capital Goods	0.5208	0.5189	0.4754	0.5019	0.5000
Pharma, Biotech and Life Science	0.5227	0.3409	0.6591	0.5455	0.5000
Food and Beverages	0.4841	0.4682	0.4818	0.4864	0.4955
Energy	0.5114	0.4773	0.4205	0.5455	0.4943
Real Estate Mgmt and Devt	0.5000	0.4631	0.5114	0.4915	0.4858
Consumer Durables and Apparel	0.4864	0.5000	0.4955	0.5455	0.4818
Health Care Equipment and Svc	0.4811	0.5114	0.5417	0.5038	0.4735
Retailing	0.4864	0.5000	0.5182	0.5182	0.4682
Food and Staples Retailing	0.5341	0.4318	0.4091	0.5682	0.4659
Utilities	0.4773	0.5000	0.5114	0.5682	0.4545
Diversified Financials	0.5795	0.4148	0.4830	0.5114	0.4432

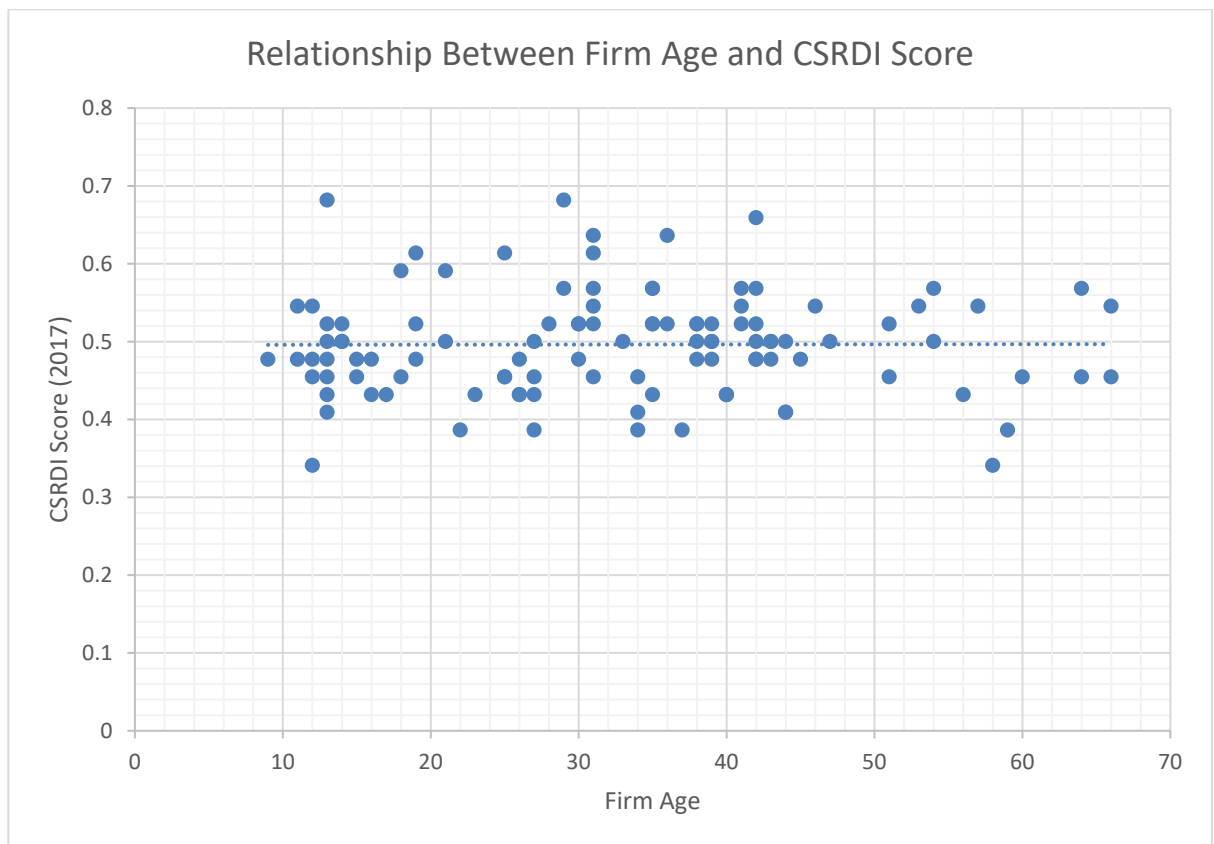
In the final year only four sectors showed a positive movement in their score, namely Media, Transportation, Materials and Food and Beverages, through in the case of the media sector, the score achieved in 2017 was the same as 2013. The largest gain was from Transportation, a sector which included four businesses. Significant growth was seen in all four businesses, with the extra points coming mainly from community, and environmental disclosure, which can be seen below as the main drivers of the score given the number of mentions. On the opposite, the product responsibility category recorded extremely low scores, 1-2 mention(s) per business.

Figure 4 Breakdown of Scores for the Transportation Businesses



Analysis was also conducted to determine whether the year established would have an impact on the level of CSRDI. Using the CSRDI score for the business as the dependent variable, with the date established used as the independent variable, with the years becoming numbers, so the first (1953), being 0 and 1954 (1), 1955 (2) and so on. It could have been hypothesized that businesses started later would be better at CSRDI given that CSR has become more public, and more concerning in recent years. But, after running the model, the results showed a poor relationship between the two variables, with the graph below highlighting no significant relationship between the two variables.

Figure 5 Relationship between Firm Age and CSRDI Score



6.3 WINNERS AND LOSERS

The chart below has been added to show the breakdown of scores for the top 10, and bottom 10 businesses in this model. The main theme here is employee services disclosure, and the role.

Figure 6 Top 10 SCRDI Scores

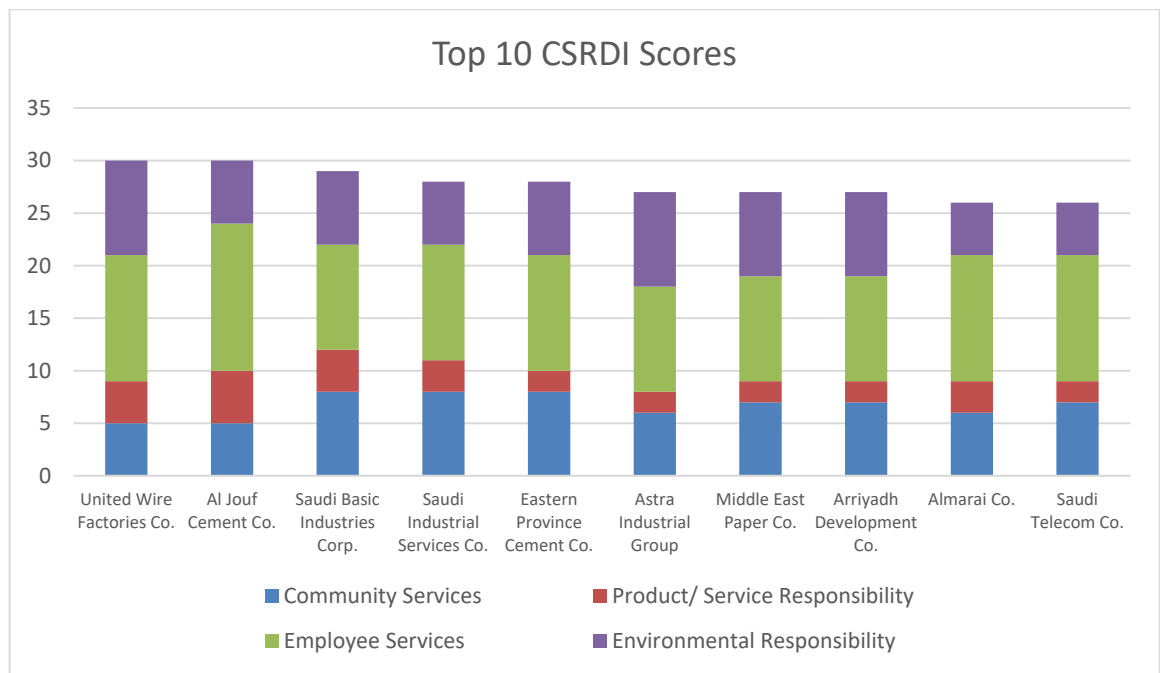
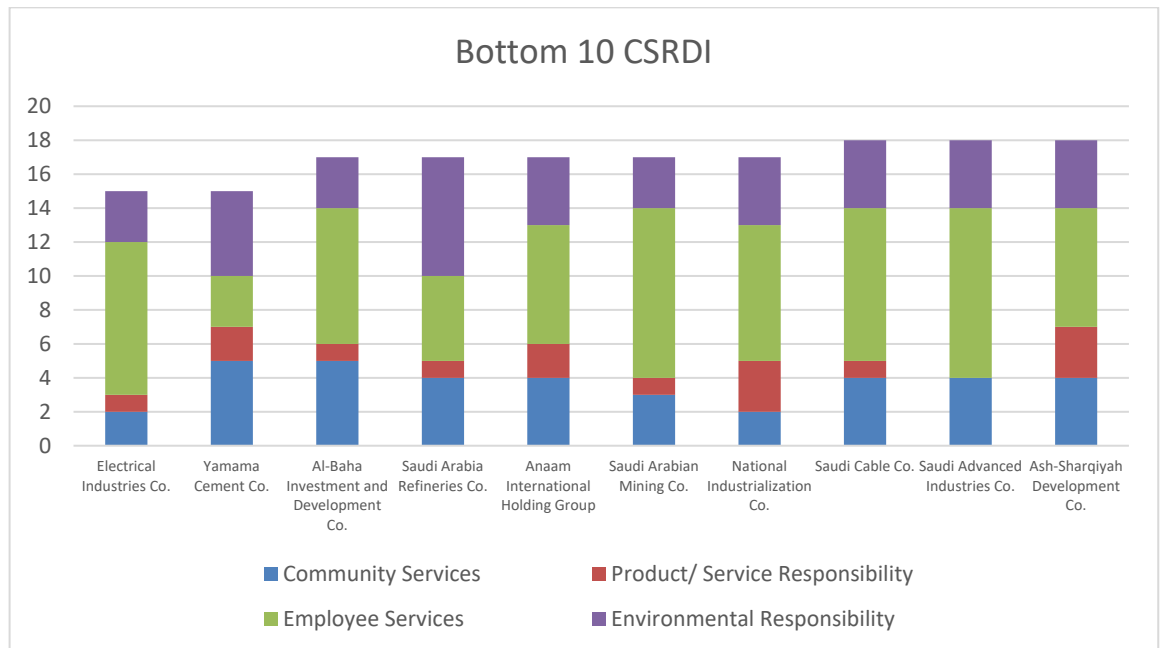


Figure 7 Bottom 10 CSRD Scores



Leading on from these results further analysis was done to determine what was the driven between the lowest, and highest scores. The table below shows the average % of each

segment per quartile of the sample (each quartile being 27 businesses). What is interesting to note here is that the % of mentions denoted to each segment remains largely the same, and so the difference between the best performer, and worst performer is not necessarily due to the best performer focusing more on environmental disclosure.

Table 19 The Breakdown of the Score

	Community Services	Product/ Service Responsibility	Employee Services	Environmental Responsibility
Lowest Quartile	21.0%	10.3%	43.6%	25.1%
2nd Quartile	22.6%	11.2%	40.5%	25.7%
3rd Quartile	23.5%	11.2%	39.9%	25.5%
Highest Quartile	23.8%	10.1%	41.0%	25.1%

From a disclosure perspective, the results here suggest that as a business improves their level of disclosure, gaining a higher score, there is no preference for a specific area of disclosure. Businesses seem to increase their disclosure of all the four segments simultaneously, maintaining the %s seen above. The only difference which could be noted is that the businesses with the higher scores tend to increase their focus on the community, as opposed to employee services.

6.4 TYPES OF DISCLOSURE

Even though a level of disclosure has been noted for every business in the study, the types of disclosure are low. When mentioning the likes of British Airways, Tesco, BP, CSR disclosure takes place in specific sections in annual reports, on corporate websites, or through stand-

alone reports (see Hopkins, 2012). This is not the case within Saudi businesses, although there are some individual exceptions which will be discussed further into the analysis.

Furthermore, the level of information and detail being disclosed by Saudi businesses is severely lacking when compared with Western peers. For instance, there is little quantitative data presented in Saudi businesses, data which may be related to the level of CO₂ emissions, or the usage of water within the business. This raises questions on the level of work which is being undertaken by these Saudi businesses to understand their impact on the environment. FTSE-listed businesses have essentially been forced by new regulation to comply and report on a level of CO₂, showing that these businesses now have a better understanding of their impact onto the environment. However, no such regulation exists on the Tadawul Exchange, and with this there are serious questions over the ability of the businesses listed here to calculate these values. To calculate such, a much larger supporting industry needs to develop within Saudi Arabia. For instance, to accurately calculate the level of CO₂ emitted by a business the business needs to understand their usage of material, energy, water, fuel *etc.*, and with this also need conversion factors to be able to calculate the assumed CO₂ emission to a KWh of energy used. This is not the case within Saudi Arabia, and as discussed in the review, the Saudi Arabian government have taken little steps to improve their own green credentials given other demands, most notably a potential slowdown in the economy.

Most Saudi businesses use qualitative data to comment on their CSR activities over the year, although even these comments are more descriptive as opposed to being critical. By this, the researcher means that the businesses provide little detail in their CSR activities, instead simply mentioning that they undertake community, and charity work while also consider their environmental impact. The quality of these disclosures means that there is little value

added to these reports as they leave readers with no additional information on what, when, and why activities are being undertaken. The researcher initially believed that Saudi businesses were simply placing holding statements to show compliance with both national regulations, as well as expected culture. When culture is discussed the researcher linked developed an understanding through previous work such as Benomran et al. (2015) who focused their research into the motives for CSR in Libyan businesses. Their key finding was *“An influential factor that regulates Libyan society is Islam. Drawing from the assumption that Islamic values in business include the fair treatment of employees, fair prices, honesty, and customer service respect for environment, charitable donations, and complete disclosures”* (Benomran et al., 2015).

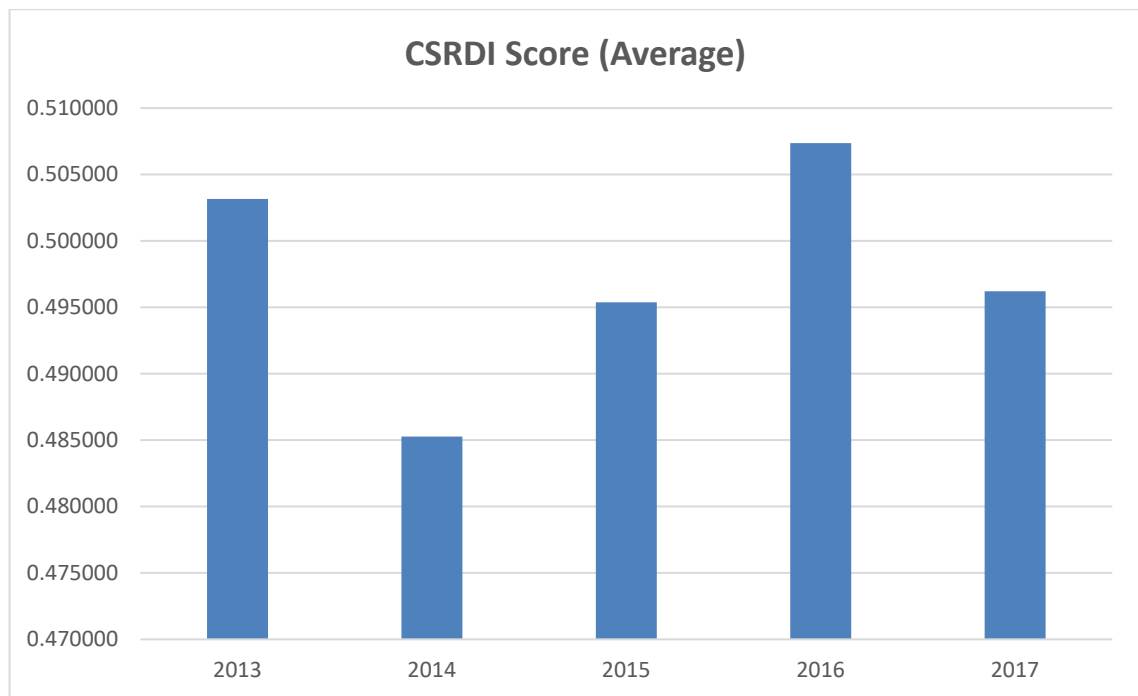
Most Western views on CSR are based on theories such as the Stakeholder theory, and social contract method which is mentioned in the Legitimacy theory (Dusuki, 2008). Though, expanding on the Western view, and Islamic view of CSR brings in teaching from the Quran and with such there is a more spiritual meaning to note. Given the prime importance of the Shari'ah in the Islamic paradigm, a religious bond assumes a more vital role than the social contract (see Dusuki, 2008). The religious bond implies a commitment to moral standards as well as social norms based on the Shari'uh (Dusuki, 2008). Thus, this notion of social responsibility is firmly inscribed within this religious bond, and with such it becomes a norm within a highly religious society as Saudi Arabia. It could be argued that Western businesses are more detailed in disclosing CSR initiatives because business managers do not expect them to do it, and so when initiatives such as community development are undertaken the business wants to disclose such, and show they are a good corporate citizen. In the case of Saudi businesses who follow the Islamic code, CSR is expected, with business managers

believing that businesses will be engaged in such because of their religious teachings. If everyone believes that businesses are acting socially responsible, it could be discussed whether there is a need to disclose such information, one potential answer as to why disclosure in Saudi businesses is low.

6.5 CSRD IN ANNUAL REPORTS

Linking back to the literature review, CSRD has gained significant presence in annual reports as businesses seek to become more transparent with their operations to environmentally conscious consumers, and business managers alike. In some markets, CSRD has become mandatory in some respects such as CO₂ reporting on the FTSE, which in turn prompts businesses here to become more transparent. It was also evident from the discussion that in many cases businesses now see CSRD as a marketing tool which in some industries can improve their value proposition to consumers. Though, the results from the Saudi businesses studied here show lacklustre development within CSRD. The chart below shows the top-level results, based on an average score for all the 108 businesses:

Figure 8 Average CSRD Score



There have been year-on-year movements, although the movements are minimal and in a tight 0.02 band; a value which could also be represented as a 2% movement. The result for 2017 ended below that initially seen in 2013 which is a worrying trend for Saudi businesses. Taking the movement between 2013 and 2017 it can be noted that 53 of the businesses (49%) decreased with their score, with 10 remaining the same and 45 (42%) increases. The table below breaks this down further, splitting the 2013-2017 changes by industry so the research can determine if there are specific relationships to consider in certain sectors:

Table 20 Breakdown of Scores by Sector

<u>Sector</u>	<u>Negative</u>	<u>No Change</u>	<u>Positive</u>
Capital Goods	10		2
Consumer Durables and Apparel	2	2	1
Consumer Services	2	1	2
Diversified Financials	4		
Energy	2	1	1
Food and Beverages	4		6
Food and Staples Retailing	1		1
Health Care Equipment and Svc	4		2
Materials	16		20
Media		1	
Pharma, Biotech and Life Science	1		
Real Estate Management and Development	3	2	3
Retailing	2	1	2
Telecommunication Services	1	1	1
Transportation			4
Utilities	1	1	

It is clear to see that ‘Capital Goods’ and ‘Diversified Financials’ are the industries to see the main falls based on the percentage of total businesses in the sector to see a fall. Though, ‘Materials’ has also seen notable falls in their businesses reporting, but on the opposite has also seen an increase; 20 versus 16. Transportation has improved their reporting, with an increase seen in all 4 businesses considered. Overall, the average decrease in score was -8.7, while on the positive the average increase in the score was +8.5, showing why the 2017 ended lower over the period.

The scores were widely spread, with several outliers on each side. On the negative, Saudi Advanced Industries Co., saw their score fall from 0.64 in 2013 to 0.41 by 2017. The diversified business, which invests into sectors from petroleum to construction in the Kingdom of Saudi Arabia at the same time reported continued growth in sales, with the latest

financial report showing a 21% increase in net income, primarily driven by increased spending in Saudi Arabia within the construction sector. As mentioned previously, the Saudi government is pushing heavily to expand the non-oil sector of their economy, with the announcement of plans such as NEOM fuelling growth in local construction, and material industries.

6.6 CSRD ON CORPORATE WEBSITES

Initially the researcher planned on focusing on CSRD within annual reports, however after beginning the content analysis it was obvious that some businesses listed on the Tadawul Exchange were focused on the basic level of reporting which put the emphasis solely on financial results. However, after delving further into these businesses, the researcher became aware that some businesses which failed to have any mention of CSRD within their reporting were placing information on their corporate websites. The justification for this could have been the desired audience for the CSRD.

In 'Western' markets the literature reviewed showed how businesses were using CSRD to increase their business value. Investing into communities, or the environment had financial benefits for businesses in the UK where stakeholder attention was turning to carbon emissions, and sustainability among other CSR issues. Those businesses who responded to stakeholder concerns were more likely to benefit from increased market share, or the ability to charge a premium product price. Thus, CSRD has a financial impact on the business, and with such there is a place for it within the annual report which is aimed at shareholders.

The opposite was noted in Saudi Arabia, with the review noting how this link between CSRD and increased financial performance is not presented. Ultimately, Saudi businesses may not

see a boost in their financial performance from increasing their focus, and disclosure of CSR issues. Under such an assumption there would be little benefit in including CSRD within financial reports which are aimed at investors who are only interested in financial performance. One notable example of this is Yanbu Cement. Their 2018 financial statement was as expected from a domestically focused business undertaking the basic reporting need with a chosen auditor, in this case being Ernst and Young. As such, the report is basic with the focus being financial performance, and the release of statutory accounts. Though, this doesn't necessarily mean that the business is not engaged within CSR activities. Their corporate website provides a dedicated section for social responsibility, breaking such down into three categories:

1-Environmental Protection – *“One primary objective of our corporate social responsibility is environmental protection. In this context, YCC has set up a Waste Heat Recovery Power Plant to curtail carbon emissions of more than 100,000 tons in addition to generation of 34 MW clean power.”* (Yanbu Cement, 2019, p. 1).

2- Philanthropy

The business constructed 20 homes in the AlNabah charity housing project.

3- Business Welfare Ethics

Provides workforce with welfare amenities such as housing, medical, recreational facilities and insurance. (Yanbu Cement, 2019).

These are significant policies which are disclosed by the business but not within their annual reports. Another example can also be mentioned with Eastern Cement Co., another cement producer in Saudi which is entirely focused on the market within the KSA. Their corporate site makes note to social responsibility through their mission statement which mentions the

high-level services provided to the community, although apart from this there it is devoid of any detail.

6.7 CSRD THEMES AND SAUDI FIRMS

6.7.1 Disclosure about Community Services

Within the literature review it was clear that while CSRD was still within its infancy in Saudi Arabia, there was a focus on community service from Saudi businesses given the national culture, and the focus on family values and charity. Yet, this was not explicit in reporting and it appeared that businesses were reluctant to provide too much detail over their community services.

Saudi Basic Industries Corp. (hereafter SABIC) received the highest score when it came to community services, with SABIC in general having a comprehensive annual report with a 4-page section dedicated to CSR in their 2018 results. The driver of this may be that their business is global in nature. With this, their reporting style is much more Westernized than other 'domestic' businesses such as Al Jouf Cement Co., who scored higher overall than SABIC. The initial difference is that SABIC is geared towards Western stakeholders by producing their report in English as opposed to Arabic for the purely Saudi focused businesses. Second, the layout of SABIC's report is more in keeping with Western peers by being more professional, with a design-led element to the report rather than purely being tables for financials.

The detail provided by SABIC is easily the most detailed, reporting "*SABIC community giving this year totalled US \$36.5 Million*" (SABIC, 2019, p.26). This is before further detail was provided, from organizing a social day in South Africa, to working with the local rotary

club in Bangalore, India which in this case saw funds donated to improve housing for the poorest in society. Projects in the US and Saudi Arabia were also detailed, with one of the key takeaways here being how global the businesses CSR was, with the researcher initially surprised into how little mention Saudi Arabian community projects received, somewhat opposed to the initial commentary which discussed SABIC's commitment to supporting Saudi's Vision 2030. On the opposite, while Al Jouf Cement Co., scored highly their reporting provided less detail with a simply mention that the business was engage, and supportive of local communities in which they operate. There is no detail of specific project, or over how much has been spent by the business; very opaque when considered against SABIC.

Al Rajhi Banking and Investment Corporation (hereafter ARB) was one of the only businesses studied which seemed to mention the 'Saudization Rate' of the business, linking in which government policies which are aimed at attracting more Saudis into the domestic workforce, in turn reducing their reliance on expatriates. In 2018, ARB had a rate of 96%, the proportion of their workforce who are local Saudi citizens, extremely high when compared with national statistics. Data obtained from the Saudi Gazette (2019) shows that of the 9.09 million workers registered in Saudi Arabia, 7.16 million are classed as expatriates, 79% of the total. It seems apparent now why ARB would want to disclose their high % of domestic workers, potentially using such as a competitive edge in the industry. As with all the main businesses studied, ARB's 2018 report begins with a statement on 'Vision 2030', aligning the business with the wider needs of the government, mentioning *"As Saudi Arabia pushes ahead with plans to reduce dependence on oil and diversify the economy, the Bank continued to align its own strategies with KSA's Vision 2030"* (ARB, 2018, p. 12). This is

important to mention as their alignment here with government policy could determine what is disclosed. ARB also mention “*We continue to give back to the community by supporting a range of programmes that are geared to provide relief and support for the marginalised or disabled segments of society*” (ARB, 2018, p. 13), a statement which again shows their alignment with wider government policies to support the domestic population, this idea of ‘Brotherhood’ which is mentioned by Khan et al. (2013). There is a lack of detail to back-up the claims being mentioned here. Yet, in other areas ARB is like Western peers when it comes to CSRD. For instance, the statement below focusing on ARB’s community involvement:

*“Giving back to the communities within which we operate, has always been a part of **our ethos** and this year was no different. Nearly **3,000 of our people banded together**, contributing over **14,000 hours** on 75 social responsibility programmes in 22 cities. **By 2020, our goal is to be able to report 50,000 cumulative hours of employee volunteering**”* (ARB, 2018, p. 15).

The emboldened text showcases how disclosure from ARB is like that of Western peers. Here, the business has developed a metric to show their involvement within community services, namely the number of hours reported. This is linked to their ethos, built into their corporate culture, which then pushes them to make a long-term goal, here being the ability to report 50,000 cumulative hours by 2020, adding all previous years together. To support this, ARB has a developed reporting system in place which can be highlighted in the below diagram, obtained from ARB (2018, p. 82):

Figure 9 Breakdown of Volunteer Hours Undertaken at ARB over the 2018FY



Source: ARB (2018, p.82)

6.7.2 Disclosure about Product/Services Responsibility

In Table 6.3 above, Product/ Service responsibility scored the lowest score in 2017, also seeing the largest fall since 2013. This was a surprisingly score given that Ahamad and Al-Amri (2013) noted an increased awareness from consumers over product sourcing, and sustainability. With such, businesses were becoming more open when discussing their production processes, detailing how their products are sourced, manufactured and sold. As shown below, the level of disclosure does vary widely by sector, with Real Estate, and Telecommunications scoring highly in 2017, compared with Biotech, Diversified Financials and Transportation who scored low. Though, there was only five sectors which showed an

improvement over the period, namely Food and Beverages (+0.12). Health (+0.03), Real Estate (+0.08), Retailing (+0.04) and Telecommunication Services (+0.13)

Table 21 Breakdown of the Product Responsibility Score by Sector

Product/ Service Responsibility	2013	2014	2015	2016	2017
Capital Goods	0.617	0.583	0.517	0.383	0.483
Consumer Durables and Apparel	0.440	0.480	0.440	0.640	0.400
Consumer Services	0.600	0.600	0.680	0.560	0.520
Diversified Financials	0.650	0.300	0.550	0.500	0.300
Energy	0.400	0.550	0.500	0.800	0.400
Food and Beverages	0.400	0.460	0.480	0.520	0.520
Food and Staples Retailing	0.700	0.300	0.500	0.500	0.500
Health Care Equipment and Svc	0.433	0.533	0.600	0.567	0.467
Materials	0.494	0.517	0.483	0.478	0.483
Media	0.600	0.800	0.600	0.600	0.400
Pharma, Biotech and Life Science	0.200	0.200	0.800	0.200	0.200
Real Estate	0.475	0.450	0.575	0.450	0.550
Retailing	0.360	0.400	0.600	0.360	0.400
Telecommunication Services	0.400	0.600	0.667	0.600	0.533
Transportation	0.450	0.600	0.500	0.450	0.350
Utilities	0.500	0.500	0.500	0.400	0.400
Grand Total	0.491	0.506	0.526	0.493	0.467

Considering these businesses, it could be said that the sectors that increased their disclosure may find such easier as they mainly provide services or are re-sellers. With such, they can pass the onus of responsibility around the products onto their supply-chain, not over how they are working with their supply-chain to reduce their environmental impact. The table below has been created to show this relationship. The main takeaway here is that each of the businesses noted as being the ‘seller’ have seen their disclosure increase over the period, while the businesses which are responsible for producing the products used by the seller have seen their disclosure fall. For instance, while retailers have increased their disclosure, the five

businesses in the ‘Consumer Durables and Apparel’ sector saw their disclosure fall. Though, there was one exception to note, that being Food and Beverages; showing that the businesses engaged in the production increased their disclosure, while those businesses focused on the retail/ wholesale decreased theirs.

Table 22 Seller/User and Producer

Seller/ User	Producer
Food and Staples Retailing	Food and Beverage
Real Estate	Materials
Health	Pharma
Retailing	Consumer Durables and Apparel
Telecommunication Services	Capital Goods

Saudi Arabian Mining Company (referred to as ‘Maaden’) has an extensive section of product procurement in their reports, showing how the miner is seeking to invest into local supply chains, both (1) benefitting the environment, and (2) supporting employment and economic growth in local communities. The business has specific promises detailed in their report for new projects, including:

- 12% of the supplier’s employees should be from the region.
- 10% of the contract price should be spent on goods/ services from the region.
- 1% of the contract price should be earmarked for local community development programmes such as those focused on education, recycling, local infrastructure.

(Maaden, 2019, p. 45).

These promises are interesting as they show that Maaden in this case is pressurizing their suppliers to adhere to their vision, here through the employment of local people. The business, unlike other Saudi businesses has a designated ‘Sustainability’ section following

Western peers. To add, Maaden provides a very detailed section into their own impact on the environment, with the diagram below showing how the business recognizes their environmental impact.





Figure 10 Ma'aden's Sustainability Goals Aligned with Seven SDGs



Source: Maaden (2019, p.48)

Linked in with the goals above are the initiatives detailed below. After undertaking the content analysis, this is the best example of a detailed plan from any business in Saudi Arabia.

Figure 11 Maaden's Sustainability Initiatives

Our sustainability initiatives			
Initiatives	Aspiration	IS Sub-Initiatives	Objective
 Excellence in sustainable business	To be internationally endorsed for being an innovation-led and value-focused business	1. Develop sustainability practices	Achieve net positive handprints vs footprints and attain ICMM membership
		2. Embed circular economy concept	Embed circular economy concept in all new businesses
		3. Adopt GRI reporting	Achieve GRI reporting standards
		4. Establish cost impact mechanism	Develop sustainability costs and impact tracking system
 EHSS excellence	To establish a performance- and culture-based EHSS system across Ma'aden enabled by the latest technology	5. Embedded EHSS culture	Fully embedded EHSS culture in Ma'aden operations and stakeholders
		6. Influence mining regulations	Ensure expert perspectives are embedded in all regulations by collaborating with key mining regulators
		7. Manage footprint	3% reduction in footprint
		8. Roll-out safety, security and fire systems technology	Introduce best-in-class technologies with emphasis on zero harm
		9. Integrate emergency response	Integrated in all sites and achieve ISO 22320 certification
 Social Impact	To be a welcomed neighbor in an empowered ecosystem	10. Mature social engagement	Level 4 assured by community
		11. Promote social brand and fund	Establish fund and publish audited report annually
		12. Integrate within the local ecosystems	Improve stakeholder satisfaction (internally and externally)
		13. Develop local content	Develop local purchasing, supply chain, and businesses
 Economic and resource Impact	To achieve excellence in assets utilisation and utilities optimisation across the organisation	14. Maximise asset utilisation	Increase asset utilisation by 3-5% through reliability program
		15. Optimise raw materials	Exceed theoretical specific consumption

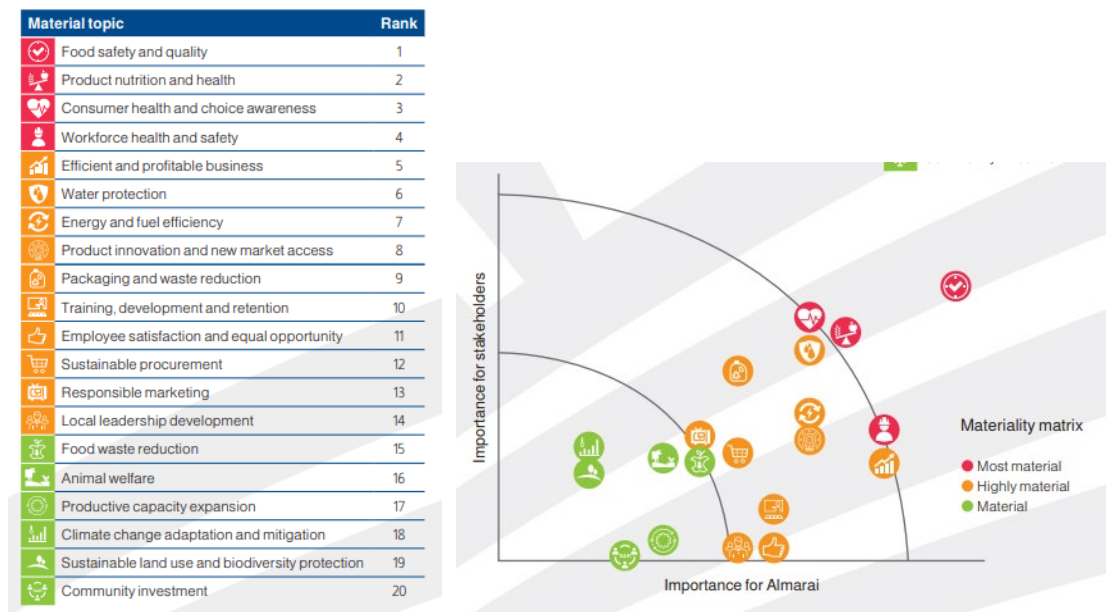
Source: Maaden (2019, p.49)

As with other businesses, the main weakness with the plans above are they lack a completion date which in turn reduces the urgency of such plans, to some extent giving the business an exit if needed. However, on the following pages, Maaden details their key milestones between 2017-2021 which incorporate with the plans mentioned above. Compared with

purely domestic businesses, Maaden is far more detailed within their CSRD, however again having their report in English as opposed to Arabic shows that the business is internationally focused, and with such there is the need to increase their CSRD in a bid to match other international businesses listed on the FTSE, DJIA *etc.* Saudi Cement (2018) was one of the business who noted the need to be focused on its product, while at the same time failing to give little detail. Saudi Cement noted “*Continuous measurements and monitoring of emissions using advanced equipment in all stacks, as well as periodic measurements by specialized companies*” (Saudi Cement, 2018, p. 24). The statement here shows two main trends which have also been noted in other Saudi businesses. The first is this style of holding statement, suggesting that the business is monitoring the situation, be it their emissions, or supply chain, however at the same time providing little detail over a long-term vision, or over plans which could be used to improve their CSR performance. The second trend is passing on the detail to 3rd parties, with Saudi Cement in this case mentioning that their measurements are done by a specialized company, giving some credibility to the process but again, providing little detail on how this data could be used by the business.

Like Maaden, Almarai (2019) also publishes a separate substantial ‘Sustainability’ report, both within their annual report, as well as a standalone report which further details their initiatives. The diagrams below show how Almarai assesses the social impact of the business, and like Maaden how they rank the importance of such:

Figure 12 Materiality Matrix



Source: Almarai (2019, p.38)

The report also made several highlights about CSR initiatives

- Obesity campaign: An obesity campaign launched in 2018.
- Emphasis on animal welfare: *“Our dairy herd and poultry flock have access to the highest quality 24-hour veterinary care. In addition, 100% of our cows live in enclosed, temperature-controlled housing and 100% of our chickens inhabit temperature controlled, cage-free barns”*
- In 2018, Almarai was proud to achieve 100% importation of its animal feed requirements, preserving water resources in the Kingdom of Saudi Arabia.
- Supporting Saudi career progression: The Almarai Future Leaders and Graduate Professional Trainee programmes continued to grow.

Yet, on the opposite end of the scale the image below shows the report from Yanbu Cement (2018), Consolidated Financial Statements as opposed to the larger Annual Reports being

shown above. The main difference is the content, with Yanbu's focus solely on financial performance, with little to no mention of CSR, only the basics which need to be mentioned to show compliance with local Saudi regulation. As well as a lack of CSR content, the image below shows the report here to be lacking the 'glossy' image that can be seen in the reports above. A significant difference between Yanbu Cement and Saudi Cement though is that Yanbu is primarily focused on the domestic market, while Saudi Cement makes several mentions in their report to exports, and other global markets in which they hold investments.

Figure 13 Extract from the Yanbu Cement Co., financial report for 2018

estimate can be made of the amount of the obligation, when the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

T) Employee benefits liabilities

This represents end-of-service ("employee benefits") under defined unfunded benefit plans. End-of-service benefits, as required by Saudi Arabia Labor Law, are required to be provided based on the employees' length of service.

The Group's net obligations in respect of employee benefits ("the obligations") is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs.

The discount rate used is the market yield on high quality corporate bonds at the reporting date that has maturity dates and the risk profile approximating the terms of the Group's obligations. The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method to determine the Group's present value of the obligation, with actuarial valuations to be carried out every third year and updated for the following two years for material changes, if any. The defined benefit liability comprises the present value of defined benefit obligation as adjusted for any past service cost not yet recognised. Currently there are no past service costs. The full amount of actuarial gains and losses are recognized in consolidated statement of comprehensive income in the year in which they arise.

Source: Yanbu Cement (2018, p.22)

While both businesses are engaged within the cement sector, Saudi Cement is valued at 11.4 Billion SYR, with annual revenues of 1.1 Billion. Yanbu is valued at 5.53 Billion, with 1.0 Billion of revenues, though all revenue here is derived in the KSA. Surprisingly, there appears to a large difference in the market capitalization of the businesses even with the

revenue is similar, a relationship which could be driven by CSRD, and one which will be discussed later within the regression model.

6.7.3 Disclosure about Employee Services

Like previous sections, there was this divide between purely domestic, and international businesses. SABIC, as one example, is a global business with a conglomerate of businesses, businesses which then need to compete with international peers, including businesses from the US/ Europe. It could be assumed that there need for human capital, knowledge, creativity, and expertise is all heightened when compared with purely domestic businesses in Saudi who may in some cases possess monopolies of certain markets given government support. To drive innovation, SABIC, and others need to attract and retain the best talent, which leads them to offer, and disclose better employee services. Examples mentioned by these businesses included healthcare, training services, and bonuses. Largely, the businesses that mentioned employee services are businesses that may need to compete for labour, especially when it comes to skilled, high-tech labour.

Saudi Telecom Company (hereafter STC) is the second largest listed business in Saudi Arabia with a market capitalization of US\$44 Billion. Like SABIC, the business also produced an English annual report suggesting that their investor base is international like their business. Their 2018 report places a focus on the employee, noting how the business has established the STC Academy, launched in 2018 which provides skill development for *“more than 3,000 young men and women in disciplines that support the ICT industry, such as cybersecurity, data analysis, modern digital technologies and driving”* STC (2018, p. 5). The business has linked with *“prestigious”* academic institutions within the UK and US to provide training to

employees. The business also noted how it supported local exhibitions designed to empower women to work, with increasing women participation in the workforce a central goal of the government within their Vision 2030.

Policies like this would be expected from an expanding business with revenues up +5% and profits up +36% on the 2017FYⁱ. It is clear from their annual report that STC are contemplating further expansion in the Middle East and North Africa (MENA) region given their dominance in the Saudi Arabian marketplace. To achieve this, the business needs human capital to support innovation and business development. Given the competitive nature of the global telecom/ ICT industry, incorporating players such as Vodafone, Google among others, it also appears justifiable that the business would spend heavily on a personalized training programme to keep talent within the business rather than say undertake training alongside other industry players, and potential competitors. Innovation is a key driver of competitive advantage in these businesses from data analytics, to 5G expertise. Ultimately, STC can disclose more on employee services given that it has the resources available to fund large-scale CSR programmes, in this case focusing on skill development which is essential for the business to remain competitive. As mentioned in Story and Neves (2015), the CSR initiatives being undertaken here are critical for the business from a future revenue, and profitability basis, and so this CSR is being undertaken given that there is a long-term financial benefit to the business of doing such.

ARB, with a market capitalization of US\$36 Billion is also global in their operations, being the largest Islamic bank in the world with operations in Kuwait, Malaysia and the wider MENA region as well as being the largest in Saudi Arabia. Like STC, 2018 saw the ARB

open an academy designed to provide training to the local population, supporting this national goal to increase participation of the local workforce. Specifically, the report mentions:

“In 2018, the Bank launched the Al Rajhi Bank Academy, which includes a School of Banking providing a series of domain and role specific certifications as well as running six graduate development programmes, for students in their final stages of graduation. The Academy also launched the School of Leadership. In total, more than 65,000 training days were delivered in 2018.” (ARB, 2018, p. 28).

ARB was also keen to mention their focus on female empowerment, introducing a dedicated female graduate programme in their business, while also opening a nursery at their Riyadh head-office which allowed women with children to enter the workforce. Again, ARB provided numbers to back up their CSR initiatives, noting how the number of female workers in the business had increased +6.2% over 2018, meaning that females now made up 14% of the total workforce (ARB, 2018, p. 28). Though, the business did not go as far to then suggest a potential goal for the future as is the case with many Western businesses. Several businesses in the UK have made it a goal to increase women participation to 50%, especially in senior management positions where female participation has been lacking, although this does not appear to be the case with Saudi businesses.

The key takeaway here is that most businesses in studied make some comment over their employee's in relation to Saudization, with Saudi Cement (2018: 24) noting how their workforce at the end of 2017 was 55.03% 'Saudi'.

6.7.4 Environmental Responsibility

While the total number of environmental mentions had increased over the time studied (+6), the actual content being provided by business was basic. Rather than provide an accurate picture of the business's current activities, and environmental concerns, the mentions recorded here were seen more as a holding statement, simply suggesting that the business in question notes they have an environmental impact, and with such is seeking to improve in the future. Though, following this there was no mention on how the business would react, there was no mention of future, or no targets.

It is this which is the main difference with Western businesses. Given intense stakeholder concern, and scrutiny over the environment, businesses have responded with a range of targets, and policies aimed at greater environmental responsibility (Carroll, 2016). The policies have been reactive and follow similar initiatives that are announced by national governments. It has also been reactive to consumer pressures; with their customers demanding change. Although, businesses have managed to separate out their international operations meaning that an announcement of a British business in the UK may not flow through into their Saudi subsidiary. One example of this is McDonalds, the US business with a significant presence throughout the world, including Saudi Arabia. Faced with increased criticism of single-use plastics in the UK, the UK business announced that there would be a change from plastic to paper straws, with a plan to have these throughout the UK by 2020. While this has gone forward, the same cannot be said for McDonald's operations in the US, and Saudi where plastic straws continued to be used. The reason here being that consumers in these markets have not yet demanded a change which could add further cost to the business, and with this the business has not responded.

Though, this is important to consider, as if Western businesses operating in Saudi Arabia began to improve their own environmental reporting, and activities, then local Saudi businesses may need to follow to better compete. Although, it appears this is not the case, and with such there is no desire from Saudi businesses to increase their own CSRD in a competitive manner. Similarly, the Saudi Arabian government have set no ‘concrete’ targets for improving their own environment. Parnell (2018, p. 1) discussed that Saudi Arabia was one of only four countries (the other three being Kuwait, Russia and the US) that declined to “welcome” a UN report which would examine the impact of global warming when there was a 1.5 degrees Celsius increase in global temperatures. When declining the report, The Saudi government responded with this statement:

“We must make ample and reliable energy supplies available for the long transition in order to ensure an orderly change. The consequences of not doing so would make an already fragile situation worse. So, investments must also be channeled into improving the performance of conventional energy as well as accelerating the uptake of renewable energy as it becomes feasible.” (Parnell, 2018, p. 1).

Though reasonable, stressing the importance of ensuring global development alongside environmental targets, the Saudi state seems to place development over environmental concerns, which in turn could be linked with why businesses are disclosing so little when it comes to environmental issues. It is interesting to note that procurement program for solar power in Saudi Arabia secured a price of 8.781 halalas/kWh, while the national electricity price, currently is more between 12-26 halalas for businesses and heavy users, showing the price competitiveness of solar. But, even with such a noticeable price advantage, solar

currently makes up little for energy generation in a country which remains dominated by hydrocarbons.

The most-detailed environmental disclosure came from the Saudi Electric Company (SEC) which could have been expected given their business interests. Again, the business aligned themselves with Vision 2030; which itself sets out the desire to generate 9.5 GW from renewable sources, although provides no date for this goal to be completed (Vision 2030, 2019). This is flowed through into the report by SEC given that while the business notes the enormous potential for wind, and solar power within Saudi Arabia, there is no actual goals set out by the business. The main disclosure from the business is set out in the quote below:

“The company also began to move towards the production of electricity from renewable energy sources such as solar power. The power plant - will generate 100 MW of solar energy. Since the announcement of the Kingdom of Saudi Arabia’s Vision 2030, the Saudi Electricity Company has been working closely with the concerned authorities at the Ministry of Energy, Industry and Mineral resources to develop its plans and initiatives geared toward implementing renewable energy projects with a capacity of 9.5 gigawatts. In this context lies the Saudi Electricity Company’s two projects in Tayba and Northern Qassim (under preparation and tender) to produce electricity by combined-cycle methods merged with 360 MW of solar energy.” (SEC, 2018, p. 69).

Though the bulk of the section called ‘Clean Energy’ is focused on the transformation of the business away from oil to natural gas for electricity generation, a process which has saved 15 Million barrels of oil from being used, in turn reducing carbon emissions. However, this does show how CSR in general is behind that of Western peers, whose definition of clean

energy may no longer include natural gas, but focus entirely on renewable, no-emission energy sources such as wind, and solar.

6.8 CONCLUSION

This section provides empirical evidence that current disclosure in businesses listed on the Tadawul Stock Exchange is low; especially poor when compared with Western peers. This lack of progress could be expected given there is no driver to begin the process of better disclosure. As discussed, there appears to be little pressure from Saudi Arabian consumers with disclosure, while investors, and the Saudi Arabian government have also been lacking in their own desires to see greater CSRD. At the same time, Western businesses making significant changes to their business's models in Europe, or the US have failed to undertake, or disclose these changes in Saudi Arabia, putting little pressure on local businesses to respond with greater CSRD themselves as a competitive response. Yet, there are some exceptions.

The content analysis suggests that larger businesses appear to be more thorough with their CSRD, with many expanding beyond the traditional 'Consolidate Financial Statement' report to one which also includes greater commentary from the management team, as well as greater disclosure of non-financial elements, one being CSR, which resembles the reports which investors in the UK/ US will be used to viewing. There is a clear ridge between businesses in Saudi Arabia on how they present their financial data to the markets. From content analysis, the researcher concludes that the main difference is their international presence. The majority of examples presented above all come from Saudi-listed businesses who also have a presence in international markets, from Saudi Cement to Maaden and ARB. On the opposite

side are the domestically focused businesses such as Yanbu Cement who release basic reports with little description, although in some cases the businesses can disclose information through other portals, mainly their website with several examples, including Yanbu mentioned above.

The key takeaway here is the audience. Within the literature review there was a discussion on CSR within Western markets, noting how businesses in Europe/ US had managed to profit from increased CSR activities and disclose. In many cases, the business improved their corporate image in the marketplace by disclosing information on renewable energy, organic products etc., which then showed through into the financial performance of the business. CSRD was a competitive advantage for the business, and with this it had a place within annual reports aimed primarily at shareholders. This isn't the case within Saudi Arabia, and as discussed in the literature section, investors in Saudi appear to be less concerned with CSRD given that there is no direct financial benefit of such. Though CSR activities are still seen throughout Saudi Arabia, the interest of these to investors is less so within the KSA, and with this they are omitted from annual reports. Though, disclosure is still seen on corporate websites, showing that there is an appetite for these activities to be disclosed, though not with investors.

In some cases, there is a void of any detailed CSRD given the audience, and the lack of demand for such information. It must be remembered that there is a cost involved with the collection, and analysis of this social data beyond that of undertaking the activities. Businesses may not deem this spend to be justifiable unless there is pressure for the data to be made publicly available. Furthermore, management at the business may place little value on this CSRD unless it (1) meets a regulatory need, or (2) can provide added-value to the

business or their operations. One notable example in this analysis has been the difference in disclosure from several cement businesses all listed on the Tadawul Exchange. Eastern Cement provided business managers with no real detail on their CSR activities; neither appearing in their annual reports, or on their website. Yanbu Cement provided no detail in their annual report, though provided a detailed account on their website, a level of disclosure which was above the level seen by some businesses who included it in their annual reports. Saudi Cement, seen as one of the larger cement producers with a significant international presence failed to provide detailed data on their CSR, however still provided more than competitors in the sector.

6.9 LIMITATIONS

Within any methodology there will always be limitations which need to be addressed. The content analysis above has presented an in-depth look into CSRD in Tadawul-listed businesses, with the scoring system clearly showing the weakness in CSRD. However, the limitation of the scoring system here is that the researcher is unable to make an exact comparison with other markets to rate the performance of Saudi businesses versus other international peers. The methodology developed by the researcher for this project is entirely new in its application. The positive of this is that it presents a new style of analysis for other researchers to undertake in markets from the UK, to China, however currently the main weakness is the lack of application for direct comparison.

Chapter 7: Impact of CSRD on Financial Performance

7.1 INTRODUCTION

One of the aims of this research as to investigate the impact of CSRD on the financial performance. As outlined in Chapter 4 in order to answer the question how CSRD impact the financial performance of the firms listed on Tadawul, an unbalanced panel data of 102 firms was used.

In this chapter the results for the regression models run to show the impact of CSRD on the financial performance of the firms. As mentioned in Chapter 4 four regression models will be estimated where the dependant variable will differ in each, namely Return on Assets (ROA), Return on Equity (ROE), Tobin-Q (TOBINQ) and Earnings Per Share (EPS). These four variables are used as a proxy for firm's financial performance for two main reasons. (1) is the ability to fact-check between models given that hypothesis that all models should show a similar relationship as they all represent financial performance. If one model diverges from the rest it requires further analysis to determine whether there is an issue with the model, or the quality of the data. If this is not the case, then a notable difference in the relationship between CSRD and a specific financial metric will be an interesting conclusion worthy of further study. (2) is that while all four metrics represent financial performance they are calculated differently, some reflecting internal financial performance while others more suited to the financial performance which can be attributable to shareholders.

7.2 REGRESSION MODEL

The impact of CSRD on financial performance has been examined using Equation (7.1).

$$Y_{it} = \alpha_i + \beta_1 X_{1it} + \beta_2 X_{2it} + \dots + \varepsilon_{it} \dots \dots \dots 7.1$$

Where Y_{it} is the dependent variable i.e. the firms' financial performance indicator. X_{1it} , X_{2it} and so on are independent variables such as the CSRD_i i.e. score calculated for each business (see Chapter 6) and other control variable. Control variables are important because they minimize outside influences on the dependant variable, while ensuring that the impact from the independent variable is the only thing being measured; in this case having the focus on the relationship between financial performance and the CSRD_i score.

7.2.1 Dependent Variables

In regression analysis, a dependent variable is one which is being tested and dependent on one or several independent variables, with it sometimes being referred to as the 'outcome' variable. In this study the dependent variables are proxies for the financial performance as explained in Chapter 4, there are several proxies used in the literature to proxy for financial performance.

Return of asset (ROA)

First, following existing literature (see McWilliams and Siegal, 2000; Salam, 2009), Ehsan and Kaleem, 2012), return on assets is employed as a measure of profitability. As in Brigham and Ehrhardt (2013), ROA is estimated as the ratio of net income for a particular year scaled by average total assets. ROA indicates how efficient the business is at turning assets into net income. Thus the higher the return the better for the business, and shareholders. With this definition, the hypothesis would be that a higher CSRD_i score, signalling better CSR performance and reporting, would in turn be linked with higher ROA, and this a positive (+) coefficient score within the regression. Dewi (2013) opted for ROA and ROE when determining the relationship between CSR and financial performance in Indonesian

businesses, choosing these two variables as they focus on the ability of the business to turn their assets and investment into net income, the mainstay metric for financial performance which is important for management and shareholders alike.

Return on equity (ROE)

Our second proxy for firm's financial performance is ROE. As in existing studies (see Hossain et al., 2006; Pahuja, 2009) ROE is calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a business's assets minus its debt, ROE is considered the return on net assets (Brigham and Ehrhardt, 2013). The main benefit to ROE is that it allows analysis to look past earnings, which could be influenced by financial adjustments, and thus see how effective a business is at generating benefits for the shareholder. It is important to consider ROE as a measure of shareholder returns given that if a positive relationship is seen it could be used as a leverage to pressure shareholders in demanding management concentrate more on improving their CSR.

EPS

EPS is calculated by earnings divided by the number of shares in circulation and provides an indication over shareholder returns (Brigham and Ehrhardt, 2013). Garg (2016) focused on the link between EPS and CSR performance within Indian businesses, finding not only a positive relationship in the actual year, but also a long-term performance whereby a higher CSR performance signalled several years of above-average EPS performance at the business. It was important to include this variable as if the CSRD_i score was positively linked with EPS performance it makes sense for shareholders to pressurize business management to

monitor, and improve the CSRDi score for the respective business, given that such would then create higher shareholder returns.

Again the advantage of using this as a proxy for firm performance is that it links with shareholder value, with shareholders considered as the main stakeholder within any publicly-listed business. If a positive relationship is found it then provides a strong argument for shareholders to pressurise firm management to improve their CSRDI through better initiatives and reporting. EPS has been used as a proxy in several previous studies including Ehsan and Kaleem (2012) and Kwanbo (2011).

Tobin-Q

The Tobin-Q ration shows the relationship between market valuation and intrinsic value of the firm. Which means this ratio is used to estimate whether a given firm is undervalued or overvalued. Several sources have used Tobin-Q as a proxy for financial performance including Cho et al. (2019) and Schreck (2011).

The calculation chosen for Tobin Q is:

$$\frac{\text{Equity Market Value}}{\text{Equity Book Value}}$$

The result can either be positive or negative, with a higher Q score suggesting that the share price is high. With this relationship the hypothesis is that a higher Tobin-Q score will be associated with a higher CSRDi score given that businesses who perform better with CSRDI initiatives will be more profitability, and thus have higher priced shares compared with peers.

Table 23 Proxies for Financial Performance

Proxy for Financial Performance	Previous studies with reference to CSRDI
ROA	McWilliams and Siegal (2000), Salam (2009), Ehsan and Kaleem (2012)
ROE	Hossain <i>et al</i> (2006) Pahuja (2009)
EPS	Dragomir (2010) Kwanbo (2011) Oyono <i>et al</i> (2011) Ehsan and Kaleem (2012)
Tobin-Q	Garcia-Castro <i>et al</i> (2010) Inoue and Lee (2011) Schreck (2011)

7.2.2 Independent Variables

Independent variables are also known as explanatory or predictor variables (Hair et al., 2015) and is denoted by X in a regression model. Essentially it is these variables which explain the movement in the dependent variables or Y variables. The aim is to study the impact of CSRDI on the financial performance or the proxies used for the financial performance, therefore, the key independent variable of interest is CSRDI. Which is calculated for each company on the Tadawul register since 2013. As outlined in Chapter 4 and further explained in Chapter 6 the ‘Content Analysis’ technique is used to develop a disclosure index for CSR activities of each company.

7.2.3 Control Variables

To isolate the impact of the key independent variable of interest (CSRDI) on the dependent variable (performance), a set of control variables is included. It is hard for any regression model to capture all independent variables which exert an influence on the dependant variable; the list can be hard to exhaust. In regression the expression ‘correlation is not

causation' is sometimes used (Ghauri et al, 2020) It means that just because two variables are related; one did not necessarily cause the other. No statistical method can prove with 100% precision that causality is present. However, studies can make it more or less likely, with control variables one method to do such in regression.

To overcome this issue, control variables are used in each model whereby the variables remain the same, isolating the movement of the independent variable which is being focused on, this case being the CSRDi score (Bell et al., 2018). Previous studies such as Clarkson et al. (2011), Crisostomo et al. (2011) and Michelon (2011) included several control variables. Firstly this study includes age as one of these control variables given that previous work from Moore (2001) as well as Peloza (2006) indicate that older businesses which survive generally have better financial performance, as their longevity is a sign of their expertise and popularity within the marketplace (also cited in Ehsan and Kaleem, 2012; Hossain and Reaz (2007) and Retab et al, 2009). Moore (2001) as well as Chen and Wang (2011) also cite size as an important variable which is linked with financial performance. A larger business is a sign that they have a greater share of the market demand, and given their size have greater financial and non-financial resources which they can use and invest to improve their market competitiveness over time, and with such their financial performance (see Brammer and Pavelin, 2008; Chen and Wang, 2011; Moore, 2001; Nelling and Webb (2009). The study also needs to account for the fact that businesses can improve their profitability and efficiency by increasing total sales. Total sales increases production within the business, which per Zhang (2013) leads to economies of scale and specialization, both concepts in business that decrease the cost per unit and thus allows the business an avenue to increase profitability. This relationship will be accounted for in the model with the GTA control variable. Finally

there is the need to consider leverage given that leverage within a business is usually associated with capital expenditure and projects which are undertaken to increase the competitiveness of the business and thus bolster financial performance. This is accounted for with the fourth control variable, leverage (LEV), with previous work from Ho (2011) noting the importance of leverage as a mechanism for firms to invest and grow in their respective markets.

$$Firm\ Leverage = \frac{Long - term\ Debt}{Total\ Shareholder\ Equity}$$

The final control variable is GTA which is the growth in total sales at the business, with the assumption being that businesses with faster sales growth will see better financial performance. This has also been accounted for by Khan et al. (2013) and Zhang (2013).

7.3 DATA

7.3.1 Sample

The aim of this study is to analyse the impact of CSRDi on the financial performance of firms listed on Saudi stock exchange known as Tadawul. Panel data for 108 firms from 2013 to 2017 has been collected. CSRDI is based on primary data calculated using content analysis technique as outlined in Chapter 4. While all other variables are based on the secondary data gleaned from Tadawul reports. The process of calculating all dependent and control variables is explained in Chapter 4.

7.3.2 Descriptive Analysis

The descriptive statistics show the quality of the data going to be used in the regression analysis. The descriptive statistics helps the researcher to understand the distribution, central tendency, and discernment of the data.

Table 24 Descriptive Statistics

Variables	Proxies for Financial Performance				Independent	Control Variable			
	ROA	ROE	EPS	TobinQ	CSRDI	Age	Size	LEV	GTA
Maximum	48.4	58.5	12.0	13.1	0.682	65	27	25	567
Minimum	-15.2	-34.6	-4.4	0.4	0.295	3	18	1	-1
Mean	7.3	11.2	2.2	2.4	0.496	29	22	2	2.7
Standard Deviation	9.1	14.1	2.5	1.7	0.071	12	2	2	28
Skewness	1.2	0.14	0.84	2.3	0.009	0.4	0.7	8	16
Kurtosis	2.5	1.3	0.84	5.5	-0.20	0.59	0.6	3.5	0.21

The skewness and kurtosis are well within the range and shows that the dataset fulfil the requirements of normalization. Spiegel and Larry (1999) suggests that if skewness is ± 3 and kurtosis ± 10 the data will be considered as normally distributed.

What can initially be seen in the data is that there are some large ranges between variables, most notably in the ROA, ROE, Age and GTA. Within the Tadawul Exchange there are some ‘anomalies’, being extremely large businesses, which tend to dominate their respective markets such as telecoms, or construction. Where there was such a large range as was the case with ROA the researcher individually looked at the datapoint to determine if this was an anomaly which needed to be removed given that the variable had been influenced by a one-time special event; i.e. *financial distress*. One dataset which had to be studied in greater depth

was LEV given that the mean is 2, though the maximum in some cases was 25, also the case with GTA which had a maximum of 567 and a mean of just 2.7. In both these cases the standard deviations remain relatively low which suggests that there are only a couple of data points with such extremely high values which may need to be removed to ensure that they do not skew the results of the regression impacting on the reliability of the models and their results.

ROA has a maximum of 48.4 and a minimum of -15.2 which is a range of 63.6 with the mean at 7.3. The mean is 22.5 points higher than the minimum and 41.1 points lower than the maximum suggesting that the data points tend to be skewed more towards the lower end. This is also shown within the standard deviation of 9.1. Standard deviation is the measurement of average distance between each quantity and mean. That is, how data is spread out from mean. The standard deviation is a low number relative to the values suggesting that the dataset as a whole for ROA are a closer set to the mean.

Skewness is a measure of the asymmetry of the probability distribution of a real-valued random variable about its mean. In a situation of perfect normal distribution, the tails on each side of the curve are equal. Though this is not always the case and the skewness value, either a positive or negative, shows the real distribution. With ROA there is a slight positive skewness of 1.2, meaning that the mean value of 7.3 is greater than the mode and thus the skew of the dataset is more to the right-hand side of the curve. This positive skewness is seen in all variables.

7.3.3 Dealing with Econometric Issues

A high-quality data is one which is fit for its intended purpose, decision making and planning.

In order to check the quality of the data intended to be used for this quantitative analysis following two tests were performed.

7.3.3.1 Test of Normality

A normality test is used to determine whether sample data has been taken from a normally distributed population. All major statistical tests such F-test, t-Test and ANOVA assume that the data is drawn from a normally distributed population.

In order to test the normality of the data visual and statistical methods like Shapiro-Wilki test was performed in Statistical Package for Social Scientists (SPSS). The Shapiro-Wilki test and Normal Q-Q Plot showed that the data meets the normality requirements.

7.3.3.2 Multicollinearity

The Classical Linear Multiple Regression Model (CLMRM) is based on several assumptions.

One of these assumptions requires that the independent variables are not highly correlated.

More specifically CSRDI, Age, Size, Lev and GTA are not highly correlated.

To detect this issue Variance Inflation Factor (VIF) and Pearson correlation coefficient were calculated. Gujarati (2012) suggests that if the Correlation coefficient is higher than 0.8 than multicollinearity exists at a problematic level. Table 7.4 shows low level of Pearson correlation coefficient range from 0.0234 to 0.5448, which indicates absence of multicollinearity.

It is evident from Table 7.4 that the firm age and leverage are significantly (0.01 level of significance) positively related to CSRDI. While the firm size and growth in total assets are positively associated with CSRDI but failed to meet the significant level.

Table 25 Pearson Correlation Matrix

	CSRDI	Age	Size	LEV	GTA
CSRDI	1				
Age	0.1707*	1			
Size	0.2147	0.0234	1		
LEV	0.3142*	0.4175*	0.5448	1	
GTA	0.2741	0.3741	0.4517*	0.3312*	1

* Correlation is significant at the 0.01 level (2-tailed)

Variance Inflation Factor (VIF) measures show how much the variance of an estimated regression coefficient increases if multicollinearity exists i.e. independent variables are correlated. VIF value 1 indicates that no multicollinearity but a value higher than 1 suggests that the multicollinearity exist. Gujarati (2012) suggests that VIF value between 5 and 10 indicates high level multicollinearity while a value greater 10 could be a problem.

Table 7.5 presents the VIF factors for all independent variables.

Table 26 Variance Inflation Factor

Independent Variables	Variance Inflation Factor (VIF)
CSRDI	1.41
Age	1.31
Size	1.03
LEV	1.10
GTA	1.03

The results show that VIF is well within the tolerance range as suggested by Gujarati (2012).

7.4 REGRESSION RESULTS

As suggested above and detailed in Chapter 4 in order to evaluate the impact of the CSRDI on the financial performance four different regression models will be estimated using OLS. This section will outline the results of each of the regression equation. Before a detailed breakdown of each model, Table 7.6 below provides a summary of the key variables from each of the four regression models run.

Table 27 Regression Models

		Model 1	Model 2	Model 3	Model 4
		ROA	ROE	EPS	Tobin-Q
	R-Squared	0.638	0.626	0.632	0.679
	Adjusted E-Squared	52.90%	51.60%	62.20%	56.90%
	Constant	10.407	2.555	-4.362	8.031
CSRDI Index	Coefficient	7.745	11.361	1.92	0.567
	<i>t-stat</i>	2.372	1.288	1.23	0.559
Log (AGE)	Coefficient	3.394	5.978	1.237	0.151
	<i>t-stat</i>	2.32	2.616	3.047	0.574
Firm Size	Coefficient	-0.49	-0.206	0.179	-0.288
	<i>t-stat</i>	-1.916	-0.516	2.54	-6.256
Leverage	Coefficient	-0.432	-0.336	-0.014	0.071
	<i>t-stat</i>	-1.589	-0.793	-0.193	1.444
GTA	Coefficient	-0.065	-0.088	-0.008	0.002
	<i>t-stat</i>	-1.966	-1.705	-0.837	0.275

7.4.1 Impact of CSRDI on ROA

In this section, the impact of CSRDI on ROA is examined using equation (7.1) below.

$$ROA = \beta_0 + \beta_1.CSRDI + \beta_2.Log.Age + \beta_3.Size + \beta_4.Lev + \beta_5.GTA + \epsilon \quad \dots\dots\dots 7.1$$

For interpretation, all the coefficients are reported as elasticity and the statistical significance is reported against 10% (*), 5% (**) and 1% (***) significance levels respectively.

Note that in each model the number of observations is 502 observations with the time period, and country both fixed for all the models.

Table 28 Model Summary and Coefficients

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
7.1	.796 ^a	.638	.529	8.95987464	2.174

Coefficients					
Model		Unstandardized Coefficients		Standardized Coefficients	
		B	Std. Error	Beta	t-stat
7.1	(Constant)	10.407	6.771		1.537
	CSRD Index	7.745***	3.266	.060	2.372
	Log(Age)	3.394***	1.463	.103	2.320
	Firm Size	-.490***	.256	-.085	-1.916
	Leverage	-.432**	.272	-.071	-1.589
	GTA	-.065***	.033	-.087	-1.966

The top table showcases the fit of the model; i.e. *how well the regression model fits with the dataset used*. The multiple R is the main number to consider, measuring the strength of the linear relationship between the predictor variables and the response variable. The value of 0.796 shows a strong liner relationship. The R^2 in this model is 0.638, interpreted that the explanatory variables used within this model explain 63.8% of the movement seen within the dependant variable.

Moving into the ANOVA table the f-statistic must be noted. It indicates whether the regression model provides a better fit to the data than a model that contains no independent variables. Generally, if none of the predictor variables in the model are statistically significant, the overall F statistic is also not statistically significant. Here the f-statistic is

3.966 so there is significance with including the explanatory variables. The p-value, or ‘Sig’ as noted in the table is a measure of confidence, or significance. Next, the study can compare the significance level; common choices are .01, .05, and .10. Here the result of 0.002 shows a very strong level of significance, under the 0.1 threshold; i.e. *the model fits the data better than the model with no predictor variables* (Sen and Srivastava, 2012).

The results presented above highlight the expected relationship between ROA and the CSRDi score, being a positive +7.745 and adding to the intercept of 10.407. The t-stat is also >2 at 2.372 suggesting significance. The t-stat is calculated by dividing the coefficient with the standard error, showing the scale of the error, or uncertainty around the variable. Pankratz (2012) states that a t-stat above >2 is preferred, while the lower the t-stat result the more the coefficient is impacted by the standard error.

The coefficients largely display the expected direction. A positive relationship was hypothesized between ROA and CSRDi. Furthermore, it was also expected that older businesses that have managed to survive in their market for longer would be more profitable. However the study was surprised that larger firms are less profitable than smaller peers. Leverage had a negative impact on ROA, however that may have been expected if a business was inefficient at using their capital to generate higher sales and net income.

Peters and Mullen (2009) also concluded on a positive relationship between ROA and CSR. Senyigit and Shuaibu (2017) ran similar regression models for Nigeria and Turkey, also concluding on a positive coefficient for Nigerian business, but a negative for Turkish. Chen et al. (2018) focused their regression models in China, concluding mandatory CSR disclosure alters firm behaviour and generates positive externalities at the expense of shareholders. This is important to note given that improving CSR performance and reporting, and thus the CSRDi score used here, the business will most likely need to increase their spending. This may include increased spending on resources to ensure accurate reporting, or increased

spending on capital projects designed to improve water, cut CO₂ emissions among others. To see increased financial performance from CSR the business will either have to (1) use CSR initiatives to cut costs i.e. *energy usage or waste*, or (2) provide the basis for the business to increase prices to customers given the increased focus in CSR. In either case the CSR initiative leads to a return on investment which then would be reflected in the financial performance. Saleh et al (2011: 1) identified “*These findings suggest that Malaysian PLCs should be involved consistently in their CSR practices because CSR has a significant impact on improving financial performance in Malaysian PLCs.*” Though the statistical analysis undertaken did highlight that the positive relationship between CSR and financial performance did wane within the long-term.

Table 29 Breusch-Pagan Test for Heteroskedasticity

Breusch-Pagan Test for Heteroskedasticity ^{a,b,c}		
Chi-Square	df	Sig.
8.872	1	.003

a. Dependent variable: Return on Asset

b. Tests the null hypothesis that the variance of the errors does not depend on the values of the independent variables.

c. Predicted values from design: Intercept + CSRDI + Log_Age + FirmSize + Leverage + GROWTH

Results of the Breusch-Pagan Test show above are for the initial model constructed prior to the model being changed which they gave the results discussed above. A p-value (Sig) less than 0.05 and with this the null hypothesis of constant variance can be rejected at 5% level of significance. This means heteroscedasticity is present in the data. In this case, the standard errors that are shown in the output table of the regression may be unreliable. Because of this

rejection the researcher transformed the data being used in the model, using the log(AGE). After the model was run again the new results for heteroskedasticity were:

Table 30 Breusch-Pagan Test for Heteroskedasticity

Breusch-Pagan Test for Heteroskedasticity		
Chi-Square	df	Sig.
3.988	1	.046

Here the p-value is above 0.05 meaning that the study fails to reject the null hypothesis of the Breusch-Pagan test, then heteroskedasticity is not present. Running the White test also backs up the result that heteroskedasticity is not present.

Table 31 White Test for Heteroskedasticity

White Test for Heteroskedasticity		
Chi-Square	df	Sig.
40.042	20	.005

7.4.2 Impact of CSRDI on ROE

$$ROE = \beta_0 + \beta_1 CSRDI + \beta_2 AGE + \beta_3 SIZE + \beta_4 LEV + \beta_5 GTA + \epsilon \dots \dots \dots 7.3$$

Table 32 Model Summary and Coefficients

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
7.2	.861 ^a	.626	.516	14.00017591	1.893

Coefficients				
Model	Unstandardized Coefficients		Standardized Coefficients	t-stat
	B	Std. Error	Beta	

7.2	(Constant)	2.555	10.580		.241
	CSRDI Index	11.361***	8.823	.057	1.288
	Log(Age)	5.978**	2.286	.117	2.616
	Firm Size	-.206**	.400	-.023	-.516
	Leverage	-.336**	.424	-.035	-.793
	GTA	-.088***	.052	-.076	-1.705

Results for the ROE model are largely similar to those noted for ROA. CSRDI score does have a positive influence on ROE, however the main issue in this model is the size of the standard error, meaning that the t-statistic is only 1.288. Even taking the standard error into account the impact is still positive, but less so than in the ROA model. For the control factors the coefficients still show the same relationship, albeit it slightly different values.

For this model the f-statistics came out at 2.651 while the significance came in at 0.022. The significance was higher than the ROA, but being between the 0.01 and 0.05 values still shows a strong model.

The Durbin-Watson is a test for autocorrelation in the residuals. The value of the test will be between 0-4, with a value of 2 suggesting there is no autocorrelation (Bell et al., 2018). Values under 2 indicate positive autocorrelation, while those above 2 indicate negative autocorrelation. At 1.893 the results indicate a slight positive autocorrelation, whereas the previous model for ROA had a DW score of 2.174, a slight negative autocorrelation. It can be noted that in Wijesinghe and Senratne (2011), the regression used to determine the relationship between CSR and ROE indicated a DW of 1.714, showing a slight positive autocorrelation for their Sri Lankan focused model. Their study also indicated positive coefficients for both ROA and ROE, matching this study, while also showing ROE to have the higher positive impact in Sri Lankan businesses, again matching these results for Saudi Arabia.

The two models (ROA and ROE) combined indicate that there is a positive impact of disclosure of CSR on performance (both ROE, ROA) and hence the overall on financial performance given that many of the figures used to calculate these metrics will also be used for other investment ratios. Many researchers have identified the benefits of CSR which have ultimately resulted in better financial performance (see Mulyadi and Anwar, 2012). Some of the researchers have noted that better CSR performance results in a reduction of cost of capital (Baiman and Verrecchia, 1996); with others have focused on the increase in corporate identity, image and reputation linked with better CSR performance and reporting (Simões and Dibb, 2008), Investor preferences in supporting businesses with a better CSR reputation (Friedman and Heinle, 2016), reduces the perceived level of ‘Risk’ (Clarkson 1995) which in turn gives businesses access to cheaper finance. When looking at these factors it is clear that CSR is a mean of satisfying all business managers’ needs, yet there are still those who diverge from the model such as Chen et al. (2018) who noted that CSR in China comes at the expense of shareholder returns.

Dewi and Monalisa (2016) also used regression model to test the relationship between CSR disclosure and ROA, ROE. Their findings indicated that while there was a strong, positive relationship with ROA there was none with ROE. This result agrees with the result from Yaparto et al (2013) who stated that CSR disclosure does not have a significant influence on company profitability which proxy with ROE. This may be because investors have a low perception on CSR disclosures, and thus the business will only undertake greater CSR participation if they are obliged to by regulation in their respective country.

All of the models included the log(AGE) given the results from the first heteroskedasticity test. The results for regression model 7.2 with ROE:

Table 33 Modified Breusch-Pagan Test for Heteroskedasticity

Modified Breusch-Pagan Test for Heteroskedasticity^{a,b,c}

Chi-Square	df	Sig.
1.485	1	.223

- a. Dependent variable: Return on Equity
- b. Tests the null hypothesis that the variance of the errors does not depend on the values of the independent variables.
- c. Predicted values from design: Intercept + CSRDI + Log_Age + FirmSize + Leverage + GROWTH

The significance is above the 5% level again so the study fails to reject the null hypothesis of constant variance.

7.4.3 Impact of CSRDI on EPS

$$EPS = \beta_0 + \beta_1 CSRDI + \beta_2 AGE + \beta_3 SIZE + \beta_4 LEV + \beta_5 GTA + \epsilon \dots \dots \dots 7.4$$

Table 34 Model Summary and Coefficients

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
7.3	.879 ^a	.632	.622	2.47220504	1.850

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t-stat
		B	Std. Error	Beta	
7.3	(Constant)	-4.362	1.875		-2.327
	CSRDI Index	1.920**	1.561	.054	1.230
	Log(Age)	1.237***	.406	.136	3.047
	Firm Size	.179***	.071	.113	2.540
	Leverage	-.014*	.075	-.009	-.193
	GTA	-.008**	.009	-.037	-.837

The results of EPS again show a strong fit given the R at 0.879 and the adjusted R² at 0.622 or 62.2%. The control variable of AGE continues to have a positive influence on financial performance, while in this model firm size is also positive, with leverage and GTA remaining negative. The coefficient for CSRD_i score to EPS is 1.920 though the t-statistic is weak at 1.230 given the high standard error. The coefficient beta can also be considered, comparing the strength of the effect of each individual independent variable to the dependent variable. The higher the absolute value of the beta coefficient, the stronger the effect. In this case the value for the CSRD_i score is 0.054 versus logAGE at 0.136 and size at 0.113. logAGE has usually exerted the strongest effect in all three models considered with the other control variables strong, while CSRD_i has usually lagged, though not been the lowest.

Reverte (2016) considered the relationship between CSR and market valuation where EPS is seen as one investor metric to calculate the value of the business. It was concluded that CSR did have a positive impact on the market valuations of businesses in Spain, however more in industries which were defined as environmentally sensitive. These industries have investors which value being socially responsible more than normal and so becoming more involved with CSR gives the business a premium market valuation (Reverte, 2016).

Table 35 Modified Breusch-Pagan Test for Heteroskedasticity

Modified Breusch-Pagan Test for Heteroskedasticity		
Chi-Square	df	Sig.
1.765	1	.184

The Breush-Pagan test is passed with significance at 0.184, being >0.05.

7.4.4 Impact of CSRDI on Tobin-Q

$$TOBINQ = \beta_0 + \beta_1 CSRDi + \beta_2 AGE + \beta_3 SIZE + \beta_4 LEV + \beta_5 GTA + \epsilon \dots\dots\dots 7.5$$

Table 36 Model Summary and Coefficients

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
7.4	.880 ^a	.679	.569	1.61140364	1.857

Coefficients					
Model		Unstandardized Coefficients		Standardized Coefficients	t-stat
		B	Std. Error	Beta	
7.4	(Constant)	8.031	1.217		6.597
	CSRDI Index	.567**	1.015	.024	.559
	Log(Age)	.151**	.263	.025	.574
	Firm Size	-.288***	.046	-.272	-6.256
	Leverage	.071**	.049	.063	1.444
	GTA	.002**	.006	.012	.275

While the fit of this model remains high at 0.880 this is more down to the control variables in place. When performance is proxied with TOBIN-Q, the coefficient CSRDI is positive but statistically insignificant. There is a larger a standard error is larger with the t-statistic at 0.559, much lower than all other models. Values of significance are also much lower suggesting that there isn't confidence in the relationship being suggested, and that this model should be discounted from the analysis. The initial hypothesis was that Tobin-Q would follow a similar relationship as EPS given that they are both variables which can be used to assess the market value of the business. The higher the Tobin-Q score the more overvalued that a business is in relation to market value versus intrinsic value (Brigham and Ehrhardt, 2013). Those Tobin-Q is always the variable which could be influenced by the most external forces

given that market valuation can easily be impacted by geopolitical issues, currency movements, oil price, speculation among others.

Nekhili, et al. (2017) analysed the relationship of CSR with financial performance, with Tobin-Q used as the proxy for financial performance. The study tested the relationship in both family, and non-family businesses to compare. Results indicated that market-based financial performance is positively related to CSR disclosure for family businesses only, and negatively related to CSR disclosure for non-family businesses.

Table 37 Modified Breusch-Pagan Test for Heteroskedasticity

Modified Breusch-Pagan Test for Heteroskedasticity		
Chi-Square	df	Sig.
9.729	1	.002

Adding to the weakness of this model is the heteroskedasticity score with the significance being under 0.05. This means that the null hypothesis is rejected and the standard errors for the residuals are uncertain and could be much higher than being reported in the model. This is a worry given that the standard errors being reported for the Tobin-Q variable was already higher than the coefficient. This adds to the argument that the Tobin-Q model should be omitted from further analysis in the study given the weak results.

7.5 DISCUSSION

Combined the four models shown a clear positive link with CSRDi and financial performance. While the strength of the Tobin-Q model has been questioned it still shows a positive relationship which would be expected given previous study by Nekhili et al. (2017). However, in regards to Tobin-Q, a proxy for market value, the researcher is aware that many other variables could have caused volatility in market price and thus impacted on the data

being used for the regression. Disclosure of CSR reports tends to lag the provision of annual financial statements, with Nekhili et al. (2017) finding that the provision of CSR related information is usually 3-6 months after the fiscal year-end, while financial data is two months. For this study, it means that the CSRD_i score given for the business in 2016 may not fully be shown in the market value of that business in 2016 and will be lagged as the information takes time to be passed onto shareholders, and then accurately reflected in the share price. This brings about a discussion into the efficiency of stock markets to reflect all available information in the share price. This is known as the Efficient Market Hypothesis (EMH) which is split into three levels; namely strong, semi-strong and weak. If the Saudi Tadawul exchange has a weak form of EMH they there could be a serious lag in new information being reflected in share prices, while in other circumstances some information could be omitted from the market valuation as investors do not particularly value that information.

Omitting Tobin-Q though and focusing on ratio's which are reflective of the efficiency of the business in turning assets ((ROA) and equity (ROE) into net income there is a strong, positive relationship with the CSRD_i score.

7.6 CONCLUSION

There is evidence from the regression to suggest a clear, positive link between the CSRD_i score and financial performance, with the ROA and ROE showing the most promising results. It would appear that businesses who increase investment and reporting into CSR can expect to see improved financial gains which will feed through to shareholders in the form of greater returns or share appreciation. This suggests that all business managers in a business can benefit from increased attention being placed on CSR initiatives within Saudi Arabia. Shareholders, business management and workers could benefit financially while local communities can benefit from more socially sustainable businesses who invest into

programmes aimed at, but not limited to, a reduction in CO₂ emissions, reduced wastage, local community projects. Given that this positive link has been shown the key takeaway for businesses is that investing into CSR has a financial return, and this financial return could be used as the basis to warrant more CSR focused projects being undertaken within Saudi Arabia.

Chapter 8: Conclusions

This chapter presents final conclusions of this thesis, covering limitations of the research, policy implications and recommendations for future studies.

8.1. SUMMARY OF FINDINGS

The first research question was what are the perceptions of business managers regarding the current practice of CSR in Saudi Arabia? This answer has been answered by conducting a survey of businesses and semi-structured interviews with 11 respondents. The questionnaire responses showed that basic awareness of CSR was high; however, there were stark differences in the respondents' viewpoints towards CSR. The highest scoring CSR activities were 'Giving Donations to Charity' and 'Reducing Environmental Impact'. Other answers such as 'Equal Opportunities' scored poorly. This low score could be done to Saudi businesses viewing equal opportunities as a necessity rather than a CSR initiative, or more likely down to equal opportunities between subsectors of the population; i.e. *male versus female, national versus immigrant*, being different based on the culture of Saudi Arabia, noted by Hofstede's Cultural Dimensions. These cultural differences may also explain the high response to charity donations with Saudi Arabia seen a family-focused, communal culture versus the more individual idealistic of Western countries such as the US or UK. Responses to this question also identified differences between specific sectors, with only 13 of the 32 businesses under the 'Energy' sector noting the reduction of environmental impacts; 41% versus the 76% seen in the overall response. But with Saudi's economy reliant on the

production and export of crude oil, a lack of concern for the environment may have been plausible within some businesses given that the transformation of the economy to a more sustainable, greener process may lead to their businesses becoming irrelevant; i.e. oil production.

Other responses highlighted that only 33% of responses noted their business to have a structured approach to CSR. Though when delved further into this it was noted that the definition given to CSR within Saudi Arabia differs from that of Western peers. Saudi respondents viewed CSR as linked primarily with philanthropy, linked with the high focus on charity as mentioned in Q2. In the UK for instance, CSR is more of a structured process focused on sustainability of business practices, with publicly listed businesses on the FTSE regulated to provide certain data such as carbon emissions and gender pay-gaps. Structure is essentially forced onto UK business for compliance with regulation. This is not the case on the Tadawul Exchange and could be the reason why so few Saudi businesses have reports on CSR to the same extent, and quality as Western peers. Responses to Q5 added to this argument noting that CSR is not linked to activism in Saudi Arabia, whereby examples of greater reporting in Western markets is linked to stakeholder activism which demands (1) greater reporting and transparency from businesses, and (2) greater efforts to become more sustainable and ethical. This is supported partly by the ability of these businesses to use CSR initiatives as a marketing tool, gaining a competitive advantage from focusing on the environment, or charity, or equal opportunities which may increase demand for their products, or allow them to charge a premium price for such (Bergh et al., 2010; Visser, 2014). The key takeaway here is that this allows a business to make a financial return from CSR

initiatives and so it becomes more attractive to invest in them from a commercial perspective. The questionnaire showed that this isn't the case in Saudi Arabia. There isn't the activism or demand from managers to become more sustainable and with such there is little financial benefit to doing so.

This focus on charity was further seen in Q9/Q10 of the interviews, with the vast majority of phrases/ activities being linked with charity; being helping the poor, homeless, and supporting local communities. Within Western businesses there would have been a greater selection, from sustainable supply-chains, to the environment, water management, health, wellbeing etc. To Visser (2011), the list on CSR could be endless as more pressure is placed on businesses from their managers, but unfortunately this understanding of CSR is not present in Saudi Arabia, with little pressure from managers to change. And unfortunately given the current economic situation in Saudi Arabia, with lower oil prices impacting on government revenue, investment and economic activity there is a low expectation that greater CSR pressures, both in disclosure, reporting and action would be placed on businesses.

In Q1 most respondents noted a basic awareness of CSR. However, when asked to rank their businesses performance in a range of issues linked to each branch of CSR, the results largely disappointed. Actual performance was low, and worrisome given the increased attention that global warming, and environmental related issues, i.e. *climate change*, are receiving on a global stage.

The reason why Saudi respondents may have initially been optimistic at the start could be explained by their culture as shown in previous empirical literature (Martin and Chaney, 2012; Marsh, 2015). There is the risk that these respondents are also being optimistic in their answers to Q12 and others, meaning that focuses on protecting greenbelt developments may

be even lower than the 1.17 recorded. To drive greater adoption of CSR initiatives beyond the local community, a society of religious needs, businesses need to face pressure from managers. The solution to this problem may not been to increase awareness in businesses but increase awareness of CSR issues to managers who will then pressurize businesses to change. If managers pressurize businesses in a way which will ultimately impact on their financial performance (i.e. less sales = less revenue/ profit) then it is more likely that management within that business will react. Q14 currently shows a lack of information being passed onto some managers, the main concern being customers.

One of the key findings was that religious beliefs also play an important part of CSR within the kingdom; with managers seeing charity work as a social obligation. If religious leaders could be educated more into the environmental issues being caused by current business practices, and in turn the risks to human development and reduction of poverty/ suffering, there is the potential for religious pressure on businesses to then make cutting carbon emissions seen as a social obligation. The most powerful stakeholder in Saudi Arabia remains the state, and with such a greater focus from the Saudi state to improve social goals such as carbon emissions, equal opportunities will undoubtedly flow through into business. While Vision 2030 has seen some new policies introduced such as a goal to increase renewable energy generation, and an improvement in women's rights, there is still significant improvement needed to bring Saudi in-line socially with the UK for instance.

The conclusions drawn here do not mean that Saudi Arabian businesses are necessarily a complete failure when it comes to CSR, but that they are failing to better incorporate CSR

versus international peers. It is worthwhile mentioning the study by Moura-Leite and Padgett (2011) who tracked the historical development of CSR within Western economies, noting that the start of CSR development can be traced to the 1980s when the initial focus was on corporate charity and philanthropy before expanding into other areas such as the environment. The future may naturally see Saudi Arabia transition as the UK and US have already done, with the perception that younger management appear to have a more ‘worldly’ view of CSR, as well as a more optimistic view. But without more pressure on the key managers mentioned above, businesses will ultimately see no regulatory pressure to change, or no financial gain from adopting changes.

The second research question was to what extent do Saudi firms disclose their CSR activities? This question has been answered by applying the content analysis of annual reports and generating an index of CSR. The results show that CSR disclosure is increasing in Saudi Arabian businesses, though more in specific areas such as local communities, which fit in with the Saudi culture of collectivism. Other areas such as environmental concerns are still lacking; however, this could be expected given that Saudi Arabia remains heavily dependent on the production of hydrocarbons for their wealth and economic success (Alshuwaikhat and Mohammed, 2017). Businesses respond to pressure from two main sources, namely: (1) stakeholder demands and (2) regulation. The Saudi Tadawul exchange is behind other global peers when it comes to regulating the disclosure of CSR initiatives, with others such as the London Stock Exchange requiring businesses to disclose information of carbon emissions and gender pay differences as shown in previously reviewed literature such as Mackenzie et

al., (2013) and Gov UK (2018). This is a possibility for the future of the Saudi Stock Exchange, but for the moment businesses which do CSR are more likely to be driven by stakeholder demands.

Generally, CSR issues beyond those surrounding national interests, local communities and religious obligation are not taken seriously. Though some interesting relationships were identified. For example, a key conclusion is that businesses engaged within the selling of a product to the consumer were generally seeing an improved performance. This applied to all except food retailing. This increase in score from consumer-facing businesses does seem to suggest that pressure from customers is there. The opposite was true for ‘producers’ such as the material and capital goods sectors that on average decreased their CSRDI score over the period.

One conclusion to draw from this could be that the weaker economic performance in Saudi Arabia between 2013 and 2017, due in part to lower oil prices, had put financial pressure on businesses to maintain profitability and returns to their shareholders. To cut costs, businesses had reduced CSR initiatives such as being more environmentally friendly. However, the content analysis undertaken did detail exceptions in some cases such as Maaden (Saudi Mining Company) who largely outperformed most businesses in the extent and quality of their CSR disclosure despite being within a sector which had seen a decrease in SCRDI score between 2013 and 2017.

The findings have shown that there appears to be little pressure from Saudi Arabian consumers with disclosure, while investors and the Saudi Arabian government have also been

lacking in their own desires to see greater CSRD. At the same time, Western businesses making significant changes to their business's models in Europe or the US have failed to undertake or disclose these changes in Saudi Arabia, putting little pressure on local businesses to respond with greater CSRD themselves as a competitive response. Until this improves CSR disclosure will not be taken seriously within Saudi Arabian businesses.

The third research question was what is the relationship between CSRD and firm performance in Saudi? This question has been answered by means of the method of panel regression analysis. The regression analysis confirmed that CSRD has a positive impact on financial performance, with a strong relationship seen between the CSRD score created and ROA, ROE and EPS. Tobin-Q also recorded positive relationships with the CSRD score; however, the results were seen as weaker given the strength of the coefficient and supporting variables. Compared to previous empirical studies reviewed, the results show consistency with a large body of previous work on ROA (Salam 2009; Ehsan and Kaleem, 2012), ROE (Hossain et al., 2006), EPS (Kwanbo, 2011; Oeyono et al., 2011) and Tobin-Q (Schreck, 2011). From this, it appears that a business which invests into CSR policies, be that towards the environment or local communities, can generate a return on their investment. This statement will be of interest to shareholders in the business. If investing into CSR initiatives and disclosure can generate positive cash flows then there is the argument to put more resources into these investments in a similar way to how a business may invest into new machinery, or international expansion. Shareholders can benefit financially from an increase

on ROA, ROE and EPS which in turn could translate into higher dividend payments, or share price appreciation.

To conclude, the results presented put forward a strong argument for greater investment in CSR activities by Saudi businesses listed on the Tadawul. While additional initiatives and disclosure will come at a cost for these businesses, the results show that this would also generate an additional financial gain. It suggests that management could treat investments into CSR the same as an investment in expanding production using tools such as Net Present Value to showcase a positive return over the life cycle (Crane and Matten, 2016). However, the results from the regression analysis do contradict the responses seen in the questionnaires. Saudi businesses believed that there was little pressure to change, which meant that there was little potential to monetarise CSR initiatives such as increased environmental protection in a way which would either (1) increase demand, market share, or (2) allow for a premium price to be charged taking into account the increased costs associated with CSR. However, the results from the regressions suggest the opposite, namely that an increased CSRDI score improves financial performance.

8.2. LIMITATIONS

All studies have limitations, and this research thesis has not been an exception to this. One of the limitations worth to mention is the extent to which the findings of this research can be generalised. Since the research used purposive sampling instead of random sampling, the findings are not representative for the whole population of companies. First, they are limited to non-financial companies and conglomerates. Secondly, they are limited to Saudi context only. Therefore, the implications of this research will be only for the Kingdom of Saudi

Arabia, and policy makers and managers in other countries may not learn as much from this research due to the differences in context.

Another limitation is related to the objectivity of primary data collected from the semi-structured interviews. The comparison between the secondary data analysis and primary data analysis has revealed some discrepancies, which could be explained by subjectivity of respondents. While all human beings are subject to the participant bias when taking part in a survey or interview, this bias often negatively affects the reliability and credibility of findings. However, in spite of the potential subjectivity in responses, the collection of data from multiple sources has allowed for effective triangulation by both source and method.

In the same way, the measure of CSRD that has been developed by constructing the disclosure index is limited by its methodology and it cannot claim to be the only possible and most accurate indicator of CSRD. Therefore, alternative approaches to the index creation could have led to different results and outcomes of the research, which also explains the discrepancies found in this study.

Lastly, the research has limitations associated with the methods of data analysis. In particular, while various econometric issues in relation to regression analysis have been checked, there are potential problems with the specification bias. The latter occurs when it is impossible to take into account and control for all possible determinants of profitability. There will always be a trade-off between increasing the number of parameters to estimate and the degrees of freedom. As a result, when more factors are added to the regression, more details can be obtained by the quality of the estimation will worsen as more degrees of freedom will be consumed. This problem has not been solved effectively for this research as the number of companies is limited to the public listed companies on Tadawul and therefore the sample

could not be expanded significantly to compensate for the loss of the degrees of freedom. Moreover, the time period was also limited to 2013-2017, which also does not allow for effectively tackling this problem of misspecification. Finally, the choice of factors used in the regression models need to be theoretically or empirically justified, which does not allow for including too many factors based on a feeling that they could impact profitability.

8.3. RESEARCH IMPLICATIONS

This research has specific academic, policy and practitioner implications. The main academic implication is that this study has stressed the importance of studying CSR and CSRD in unique context swaying away from the traditional context of well-researched developed markets where most CSR theories were formed. This may spur further development in theoretical academic research that would combine the cultural dimensions, institutional theory and traditional CSR theories to create a brand new framework that would be applicable to Islamic states.

The main policy implication of this research for the Saudi government is that it should be focusing more on enforcing regulatory CSR reporting to make companies more active in this field. As voluntary disclosure is not widely practiced in Saudi Arabia or is limited to specific narrow and local areas of CSR, companies lack behind in CSR reporting compared to those listed on stock exchanges of the UK and US. In order to build a better public image of the country in the international market, Saudi government should impose regulations that would ensure that companies, including state-owned enterprises, are more active in their CSR initiatives and disclose more information on diverse areas of CSR. This could facilitate more investments, higher recognition of Saudi businesses in the world and better public image.

There are also implications for practitioners, namely business managers who run Saudi companies. The results of this study have revealed that CSR disclosure facilitates better financial performance that can be reflected in both accounting profitability and even market valuation. The latter can be explained by the role of socially responsible investors who seek ethical businesses, and CSR disclosure will help businesses to put themselves forward as ethical and socially responsible citizens.

An implication of this research is that business managers should be treating CSR disclosure as a traditional investment. Even though it not tangible, it is able to produce both financial and non-financial gains to the company and its shareholders.

8.4. CONTRIBUTIONS OF RESEARCH

This research has made methodological, empirical and to a lesser extent theoretical contribution to the body of literature related to CSR and performance of companies. In regards to the methodological contribution, this study is the first study in the context of Saudi Arabia that applied the mixed-method research design with such a large extent of triangulation by both sources and methods. The triangulation of methods was achieved by combining content analysis, thematic analysis, regression analysis, questionnaire survey as a method of collecting primary data, semi-structured interviews as a method of collective primary data and desk research as a method of collecting secondary data. The triangulation by sources was achieved by surveying and interviewing managers who provided primary data and collecting financial and non-financial information from the audited annual reports

published by Saudi companies. Such triangulation contributes to greater validity and credibility of the research findings.

In regards to the empirical contribution, to the best of the researcher's knowledge, the relationship between CSRD and firms' financial performance measured by both accounting and market-based indicators has not been studied in the Saudi context. Exploration of the CSRD effects on different types of performance is one of the empirical contributions of this study to the available literature on the topic. Another empirical contribution of this thesis is that it is the first one that has successfully surveyed representatives of more than half of the companies listed on the Saudi stock exchange, Tadawul.

This study has not aimed at creating a new theory of CSR that would be specific to the context of Islamic states and particularly Saudi Arabia. Nevertheless, the development of the brand new index of CSRD in the context of Saudi Arabia can be considered as an important theoretical contribution of this study. Previous attempts to construct similar indices resulted in different measures and there is no universal methodology for developing such an index. Therefore, each measure remains unique.

8.5. Recommendations for Future Research

This research can be expanded in several directions, and this section identifies some avenues for future researchers to carry on the investigation in the sphere of CSR and how it can be improved in the Saudi context. The first recommendation is that future researchers should consider constructing and comparing alternative indices of CSRD in the context of Saudi firms in order to aim at more objective and multifaceted measures of CSRD. Future indices could be based not only on the content analysis of annual reports but also on the additional

official reports issued by companies where they disclose their CSR practices. In the same way, it could be measured by future studies how news cover the CSR activities of various Saudi companies and whether this contributes positively to their brand image and reputation in the country and in the global arena.

Another avenue for future researchers is to expand the semi-structured interviews by targeting more business managers. In this study, it was possible to complete only 11 interviews, which is a relatively small sample size. Future researchers should approach more managers and aim at a larger response rate for the interviews. Moreover, it is recommended that the sample of respondents should be more diverse and include different types of managers such as top executives, operations managers, human resource managers, etc. This would allow for observing the differences in responses between stakeholders and how this may link to the position they hold in their companies.

Next, since this research thesis focused on non-financial companies and mostly ignored financial firms in Saudi Arabia, it is recommended that future researchers compare these two major types of companies in terms of their CSR initiatives, disclosure and reporting and evaluate whether CSRD has the same effects on the financial performance of non-financial companies and financial companies. This can be achieved by running regressions with dummy variables for the type of company or applying the method of ANOVA.

Finally, the social and Islamic factors affecting the business in Saudi Arabia may be similar to other countries in the GCC region with a similar religious and social background. Hence, another way to expand this research and achieve a larger number of observations is for future researchers to analyse all six GCC countries, namely: Saudi Arabia, the United Arab Emirates, Oman, Qatar, Kuwait, and Bahrain.

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APPENDICES

Appendix I: Questionnaire

Sample No.: _____

Participants' Characteristics

Gender: Male/Female

Age: Below 30 [] 30-35 [] 35-40 []
 40-45 [] 45-50 [] Over 50 []

Designation: CEO [] Operational Manager []
 Director (Executive) [] Director (non-Executive) []
 CFO []

Education: Undergraduate [] Masters Level [] PhD []

Industry Sector:

Energy []	Materials []	Capital Goods []
Banks []	Insurance []	Financial Svc []
Education []	Retailing []	Media []
Consumer Services []	Transportation []	
Telecommunication []	Utilities []	
Commercial and Professional Svc []		
Consumer Durables and Apparel []		
Health Care Equipment and Svc []		
Pharma, Biotech and Life Science []		

Company size

No. of Employees	Less than 10 []	10-20 []
	20-30 []	30-40 []
	40-50 []	50-100 []
	100-200 []	200-300 []
	300-500 []	Over 500 []
Turnover (SAR)	0-5 Million []	5-10 Million []
	10-20 Million []	20-30 Million []
	30-50 []	50-100 Million []
	Over 100 Million []	

Basic Awareness

1. Are you aware of Corporate Social Responsibility (CSR)?

YES [] NO []

2. How would you define Corporate Social Responsibility?

Giving donations to charity []

Creating equal opportunity at workplace []

Supporting home-grown talent by providing training opportunities []

Adopting business ethical practices []

Taking steps to reduce environmental impact []

Making sure that working conditions and environment is safe for employees []

3. Does your company/organisation have a structured CSR policy/programme?

Yes [] No []

4. What are the main driving behind your company/organisation's CSR policy? (Please rank 1-10. 1 for lowest and 10 for the highest)

Company reputation []	Local Community Interests []
National Interests []	National Policies []
Brand Loyalty []	Environmental concerns []
Regulatory Compliance []	Religious values []
Financial performance []	Interests/Pressure stake holder []

5. How your company implement CSR policy?

CSR implementation Department [] Foundation Trust []

Other []

If other, specify: _____

_____.

6. Does your organisation/company keep separate budget/funds allocation for CSR activities/

YES [] NO []

If yes: what part of the net profits is allocated for CSR activities:

Not sure	[]	1% - 2%	[]	2% - 3%	
	[]				
3% - 5%	[]	5% - 7%	[]	7% -10%	[]

7. Does your company take part in Community Investment Initiative?

YES [] NO []

If yes; which of the following areas:

- | | | |
|-------|---|----------|
| I. | Helping underprivileged/poor/destitute | [] |
| Ii. | Poverty Alleviation | [] |
| Iii. | Youth development (to improve their chances of employability) | [] |
| iv. | Basic education provision | [] |
| v. | Supporting disable (education, employability, other sports) | [] |
| vi. | Local Heritage | [] |
| vii. | Cultural Activities | [] |
| viii. | Sports and Games (supporting sporting talents) | [] |
| Ix. | Nature Conservation | [] |
| x. | Infrastructure support to local communities | [] |
| xi. | Others (Please specify): | |

8. What type of resources does your company provide for such community development initiatives?

Financial Support	[]	In Kind	[]
Volunteers	[]	Loans	[]
Others (please specify):	<hr/>		

9. To encourage employees to volunteering what initiative your organisation/company give:

Time-Off (Paid) [] other Monetary benefits []

Non-Monetary Benefit [] Other: _____

10. Please rank the following statements

Where:

1 → Strongly disagree 2 → Disagree

3 → Undecided 4 → Agree

5 → Strongly Agree

No.	Statement	1	2	3	4	5
1	CSR is a strategic tool to meet financial objectives					
2	CSR is an obligatory duty of every business establishment					
3	Every business establishment should have a CSR policy					
4	General public and investors give more recognition to the companies who play a positive role in the community via a CSR strategy					
5	Do you agree with the financial commitments of your organisation for CSR?					
6	Do you agree with the CSR dimensions/activities of your organisation/company?					
7	Government should provide technical support and training to SMEs to develop and implement CSR					

11. Please rank the following as CSR priorities for your organisation/company.

Environment	[]	Education	[]
Healthcare Provision	[]	Community development	[]
Sustainable Housing	[]	Rural Development	[]
Employee care	[]	Equal opportunities	[]

Empowering women [] Others: _____

12. Please Rank the following:

1 → Very Poor 2 → Poor 3 → Satisfactory 4 → Excellent 5 → Outstanding

Environment

No.	Statement	1	2	3	4	5
1	Pollution control					
2	Recycling and Solid waste management					
3	Green Belt (Development and maintenance)					
4	Caring about Carbon footprint (Energy saving)					
5	Water management (rain water harvesting)					
6	Taking steps to improve public awareness about environment protection					

Education and Training

No.	Statement	1	2	3	4	5
1	Community based support for basic schooling (i.e. Primary to Secondary)					
2	Offering scholarships to poor students to unleash their potential					
3	Providing infrastructure support to build schools and colleges in rural areas					
4	Providing necessary equipment to existing schools/colleges					
5	Providing training to improve employability of youngsters in the community					

6	Providing in house training program to enhance employability of local youngsters.					
7	Work placement for youngsters (providing or sponsoring)					

Health Care (Community and employees)

No.	Statement	1	2	3	4	5
1	Providing basic health care for employees and their families					
2	Organising healthcare camps in the villages					
3	Organising drinking water in the villages					
4	Sponsoring hospital beds					
5	Organising Blood Donation Camps					
6	Provide special care e.g. Equipment for disable people					

Community Development

No.	Statement	1	2	3	4	5
1	Developing /Organising Community Welfare Centres					
2	Supporting the Cottage-Industry					
3	Developing/Organising Training Centres (e.g. Computing, tailoring etc.)					
4	Women empowering projects (especially in Rural areas)					
5	Socio-Cultural development of communities in villages and rural areas					
6	Taking steps to improve quality of life of villagers					

7	Providing guidance (giving them access to market, latest farming techniques etc.) to animal farmers and vegetable farmers who have small piece of land.					
8	Developing rural roads					
9	Developing water tanks					
10	Developing drainage and rain water management					
11	Developing sanitation					

Employee Welfare and Labour Relations

No.	Statement	1	2	3	4	5
1	Company follow Health and Safety standards in all spheres of business					
2	Support work-life balance					
2	The company has stable labour relations					
3	The company has and carefully follow a diversity policy					
4	The company management takes steps to prevent all forms of discrimination					
5	In your expatriate employees has same rights as the locals					
6	The employees are supported to upskill themselves (Continued Professional Development Policy)					
7	The company takes necessary steps to improve the no. of local staff (i.e. Saudi nationals)					
8	The company takes necessary measures to increase female number of employees					

13. Give your opinion about the impact of CSR on the following aspects f your business

No.	Statement	1	2	3	4	5
1	Improve sales by improving the customer loyalty					
2	Enhance customer satisfaction and brand awareness					
3	Enhance employee retention and job satisfaction					
4	Inspire employees and improve employees' morale and motivation					
5	Improve the social integration					
6	Help the country to meet macroeconomic targets such as reduce unemployment etc.					
7	Bring efficiency and reduce the economic waste					
8	Protect environment by developing environment friendly services and products					
9	Make it possible to comply with the international standards like ISO etc.					
10	Attract more investment					
11	Bring general financial gains for the company such as enhance enhanced ROA, ROI, market value etc.					

Following questions are related to the issue of Corporate Social Responsibility Disclosure.

14. Does your organisation/Company share the CSR strategy/policy with the following stakeholders

		Never	Occasionally	Always
1	General Public (Community)			
2	Customers			
3	Employees			
4	Investors			
5	Suppliers			
6	Government Bodies			

15. Does your company evaluate the impact or effectiveness of the CSR activities?

YES [] NO []

16. With whom do you share these findings:

		Never	Occasionally	Always
1	General Public (Community)			
2	Customers			
3	Employees			
4	Investors			
5	Suppliers			
6	Government Bodies			

17. Which medium of communication do you use to communicate with the stakeholders

		Never	Occasionally	Always
1	New bulletin			
2	Annual Reports			
3	Weekly news magazine			
4	News paper article			
5	Website			
6	Advertisements			

18. What medium do you use to raise CSR awareness within the organisation, i.e. among the employees, board of directors etc.

		Never	Occasionally	Always
1	Awareness events			
2	Employee training programs			
3	Internal communication (i.e. Intranet, Newsletter etc.)			
4	Management briefings			
5	Website			
6	Reports (Monthly, Quarterly or annually)			

Comments: _____

--THE END--

Thank you very much for your support.

Appendix II: Interview Questions

Q1. What is your designation?

Q2: Since when you are working with this company?

Q3: Since when your firm is listed on Tadawul?

Q4: How satisfied are you with the business success of your firm? (Rate 1-10)

Q5: How satisfied are you with your firm's performance on Tadawul? (Rate 1-10)

Q6: In your opinion, what are the non-commercial (non-business) factors influence the success of your business?

Q7: Did you ever hear the phrase "Corporate Social Responsibility" (CSR)?

Q8: Do you think that there is a relationship between the concept of "Corporate Social Responsibility" and the word "ethics"?

Q9: Please write down the phrases and/or words CSR associates to you and/or your company?

Q10. Please list the CSR activities that you can think of?

Q11: Here is a list of commonly conducted CSR activities. Go over the list carefully, and tick the ones that your company has performed/has been performing. If your company is performing a CSR activity that is not on this list, please explain that.

Q12: Does a business necessarily have to perform a CSR activity in the same industry they specialize in?

Q13: In your opinion why businesses take up CSR activities?

Q14. Is there a CSR Department at the company you are currently working for? If not, do you think that there should be one? Why/Why not?

Q15. Do you think that consumers, media, government, and competitors see a company engaged in CSR activities as more successful than the others?

Q16. It is known that CSR activities have a cost to businesses. Is it worth the cost?

Q17. Should businesses terminate their CSR activities at times of economic crisis or continue them?

Q18. Which one do you think society values more, a business spending their money or time to improve the well-being of society?

Appendix III: Corporate Social Responsibility Checklist

Disclosure about Community Services

No.	Description	Score
1	The company takes steps/organise community activities (such events, arts and cultural activities or sports) by donating money and/or providing human resources.	
2	The company organise Summer internship or part-time jobs for students.	
3	The company takes part in public health initiatives and/or raising awareness about the public health issues e.g. diabetes awareness programme on diabetic day.	
4	The company has a scholarship program for talented and/or needy.	
5	The company sponsors seminars, conferences, workshops or art exhibition.	
6	The company has youth development program (employability skills).	
7	The company organise or takes part in job fares or employment fares.	
8	The company organise special campaign to support victims of natural disasters.	
9	The company supports and development community programmes like events/activities week or excursion.	
10	The company sponsor or support local sport activities for youth.	

Disclosure about Product/Services Responsibility

No.	Description	Score
1	The company product/services meet the applicable safety standards.	
2	The company provide all necessary information about the safety of firms' products and services.	
3	The company disclose information about the development of the company products and packaging.	
4	The company has RandD programme to improve the products in terms of quality and safety standards which meets the local requirements and standards.	
5	The company has received any awards regarding the information about the companies' products and services such as ISO 9002, ISO 22000, ISO/IEC 17025, GMP/HACCP/HALAL, BRC	

Disclosure about Employee Services

No.	Description	Score
1	Number of employees in the company i.e. head office/branches/subsidiary are reported	
2	The recruitment and progression process outlined.	
3	The recruitment of applicants from special interest groups such as minorities/disable/women.	
4	Basic information about the qualification/experience of the recruited employees (at least in senior management) are reported.	
5	Company's future and job stability is reported.	
6	The company's relationship with the workers union/trade union or workers lobby interest groups.	
7	The company work environment meets HandS standards.	
8	The company comply with the HandS regulations set out by the international and/or local bodies.	
9	The company log and reports work place accident statistics	
10	The company provide Health insurance to the employees.	
11	The company takes steps to provide low cost health care to employees and their spouse and children	
12	The company arrange training programmes for the staff/employees or/and give financial help to support the employees to further career.	
13	The company provides recreational facilities/activities.	
14	The company provides low cost accommodation or run a home ownership schemes for the employees.	
15	The company provides day-care, maternity leave, paternity leave, holidays and vacations.	
16	The company's remuneration schemes	
17	The company's professional progression schemes	
	The company's share purchase scheme for employees	

Environmental Responsibility

No.	Description	Score
1	The company has concerns about the environmental impact	
2	The company comply with the pollution laws and regulations	
3	The company's business operation statement suggests that the company will take steps to reduce the pollution caused by the company's operations.	
4	The company take steps to recycle materials, papers, glass, water oil etc.	
5	The company is taking necessary steps to repair or prevent damages done to the environment due to the business processes or utilization of natural resources. For example, Environment Protection Programme.	
6	The company take steps to support private/public action designed to protect the environment.	
7	The company is involved in designing facilities which are harmful for the environment.	
8	The company disclose information about harmful gases emission.	
9	The company disclose information about the water utilisation.	
10	The company disclose information about solid waste disposal.	
11	The company has acquired or pursuing environmental protection standards such as Carbon label or ISO 14001.	

Total Score: _____
